

BATTLE FOR THE PRESIDENCY

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Clinton Vows He Will Stay and Fight



A Tokyo stockbroker on a break from the havoc Friday.

The Gloom Darkens For Japan

Economy Slipped At a Faster Pace; Nikkei Falls 5.11%

By Sheryl WuDunn
New York Times Service

TOKYO — In the steepest sign yet of the depth of Japan's recession, the government said Friday that the economy contracted in the second quarter by an annual rate of 3.3 percent, nearly twice as steep a fall as most economists had expected.

This marked the first time that Japan's economy had contracted for three consecutive quarters since the government began keeping such statistics in 1955. Moreover, the data suggest that the core of the economy slid even more rapidly than it did earlier in the year.

"The Japanese economy is probably about to go through its darkest moment," said Taichi Sakaiya, Japan's top economic official, at a press conference after the figures were announced. "Tough times will continue."

That spells trouble for other crisis-hit countries in Asia and elsewhere. As the world's second-largest economy, Japan plays a major role in influencing the trend of growth in the global economy.

Even before the report was released, stocks in Tokyo spiraled downward in their biggest single-day decline so far this year on the busiest day of trading. The benchmark Nikkei 225 stock index plunged 5.11 percent from its previous close to end at 13,916.98, down 749.05 points, mainly spurred by doubts about the econ-

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The Dollar		
New York	Friday 8:41 AM	previous close
DM	1.6943	1.684
Yen	130.675	134.4
FF	5.579	5.648
Pound	1.6728	1.6903
Dollars per pound		
The Dow		
Friday close		percent change
+175.98	7,785.50	+2.36%
S&P 500		
+28.37	1,008.06	+2.95%
Nasdaq		
+56.32	1,641.65	+3.55%

Newsstand Prices		
Bahrain	1.000 BD	Malta
Cyprus	C 1.00	Nigeria ... 1250 Naira
Denmark	14.00	DK
Finland	12.00	OMR
Gibraltar	£ 0.85	Rep. Ireland
Great Britain	£ 0.90	Saudi Arabia ... 10 SR
Egypt	£ 5.50	S. Africa ... R12 + VAT
Jordan	1.250 JD	U.A.E. ... 10.00 Dh
Kenya	K. Sh. 160	U.S. M. (Eur) ... 5 1/20
Kuwait	700 Fm	Zimbabwe ... Zm 50.00

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*I Sinned, He Says In Apology That Includes Lewinsky*By Brian Knowlton
International Herald Tribune

WASHINGTON — President Bill Clinton declared somberly Friday that "I have sinned," in a speech so emotional and abject — including his first public apology to Monica Lewinsky and her family — that it brought a group of clergymen to their feet.

The address was one of the most extraordinary ever given by this or any other president. "I can think of no comparable speech to this," said Charles Jones, a former president of the American Political Science Association.

Reading from notes, Mr. Clinton said he had scribbled down late the night before, he said his was a "broken spirit."

In slow, measured words, he added: "I don't think there's a fancy way to say that I have sinned. It is important to me that everyone who has been hurt know that the sorrow I feel is genuine — first and most important, my family, my friends, my staff, my cabinet, Monica Lewinsky and her family, and the American people. I have asked all for their forgiveness."

Speaking to religious leaders gathered for an annual meeting with the president, he also described a road map he had drawn for repentance and spiritual rebuilding.

"To be forgiven, more than sorrow is required, at least two more things," he said. "First, genuine repentance, a determination to change and to repair breaches of my own making. I have repented."

"Second, what my Bible calls a broken spirit, an understanding that I must have God's help to be the person that I want to be, a willingness to give the very forgiveness I seek, a renunciation of the pride and the anger which cloud judgment, lead people to excuse and compare and to blame and complain."

In many ways, the speech included all the touchstones and evident contriteness that some advisers hoped would be in his Aug. 17 address to the nation.

At that time, he acknowledged having had an "inappropriate" affair with Ms. Lewinsky. But he also harshly attacked the independent counsel, Kenneth Starr, for mounting a four-year investigation of the president. That, said political opponents and some supporters, showed a failure by Mr. Clinton to accept fully that the fault was his and that blame could not be placed elsewhere.

But even one of his closest friends and spiritual advisers, the Reverend Jesse Jackson, acknowledged Friday that in some ways the speech might have come too late.

"Had it been projected as little as two weeks ago," Mr. Jackson said on CNN, "it would have made a profound difference." Then he added, "It can still make a profound difference."

Mr. Clinton, while saying the Lewinsky matter would always serve "as a caution light in my life," added that "it is very important that our nation move forward."

See CONFESS, Page 7



President and Mrs. Clinton at a memorial service Friday for victims of terrorism.

A Power Vacuum at the Top

By David E. Sanger
New York Times Service

WASHINGTON — Washington has been so distracted by President Bill Clinton's troubles, by the slow-motion collapse of the Russian government and by the continuing meltdown of Asia that few in the U.S. capital have had time to consider what could set off the next wave of economic turmoil.

So it was no accident that after a cabinet meeting late Thursday afternoon, Treasury Secretary Robert Rubin appeared on television to underscore that the president is "intensely focused" on world economic events, even while he fights for political survival and apologizes for what Mr. Rubin termed "terrible mistakes."

Mr. Rubin made an oblique argument that keeping the president in his job was essential,

— saying this is "a time when the world has only one leader who understands these issues."

NEWS ANALYSIS This week, Washington and Wall Street, two universes rarely in sync, got a taste of what may be coming.

The images on Wednesday of Kenneth Starr's boxes of evidence landing on Capitol Hill helped propel the U.S. markets to another

taste of what may be coming.

The White House sent copies of its response to leaders of Congress.

See CLINTON, Page 7

A Country Troubled About Values

For Many Americans, Scandal Is a Symptom of Moral Decline

By Richard Morin
and David S. Broder
Washington Post Service

WASHINGTON — For many Americans, the White House scandal is just the latest symptom of broad and deep moral decline. Everywhere they look — in the newspapers, on television, in their own neighborhoods and even within their own families — they see eroding values.

At the same time, Mr. Clinton has become a test case of whether this generation of Americans wants to sit in judgment on each other or be willing to live and let live.

More than 7 in 10 said adultery was unacceptable and "should not be tolerated." Yet when it comes to Mr. Clinton, what the public says and what it means are two different things. Fewer than half of those who said adultery "should not be tolerated" said Mr. Clinton's affair with Ms. Lewinsky was an "intensely focused" on world economic events, even while

link the White House escapade to their broader worries about the lack of respect for tradition and authority, to the coarse content of the movies, television and music, to personal dishonesty and sexual promiscuity.

Mr. Clinton's actions are not viewed in isolation. They come at a time when many Americans are also upset by what they regard as other threatening social trends, from alcoholism to sexual harassment to homosexuality to homelessness.

Coming to judgment on Mr. Clinton requires resolving a complex of considerations. The survey found that 9 out of 10 Americans consider it unacceptable for a married person to have a sexual affair. The condemnation for that behavior was far stronger than for bearing a child out of wedlock, marijuana smoking or same-sex marriage.

Only one respondent in five said that

See VALUES, Page 7

For First Time, Mrs. Clinton Emphasizes Her Forgiveness



Hillary Rodham Clinton, appearing with her husband, declared her pride and admiration for her husband. Her spokeswoman said the first lady "expresses her support, her love and her forgiveness" for her husband. Previous statements expressed love and support, but this was the first to use the word "forgiveness." Page 3.

Dismay and Anger in Europe

Whether they felt he should stay or go, news papers across the Continent expressed concern and anger over the situation in Washington. Some were fearful over the worldwide impact of impeachment or resignation, while others called on the president to step down. Page 7.

How to Get It on the Internet

Internet links to the report by Kenneth Starr and the White House rebuttal are available at the IHT web site: www.iht.com.The reports and related text can also be found at www.washingtonpost.com and at www.nytimes.com.

Primakov Wins Strong Duma Support

Prime Minister Pleads for Time on Economy

By Daniel Williams
Washington Post Service

after the collapse of the Soviet system in December 1991.

The vote was 315 for Mr. Primakov and 63 against, with 15 abstentions. Communist and conservative, rural-oriented parties were joined by economic liberals in endorsing Mr. Primakov.

The confirmation was swift. The entire Duma session lasted less than two hours.

There was a reason for the rush. Russia is in swift decline, with tens of thousands of citizens deprived of access to savings in bankrupt banks, still others losing jobs as businesses close and with shoppers clearing stores of foodstuffs.

The ruble is in wild gyrations and

See RUSSIA, Page 7

AGENDA

Algeria Calls Early Presidential Election

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Anger Rises in Iran

You will see how we will react," the former Iranian president, Hashemi Rafsanjani, proclaimed at Friday prayers in Teheran, addressing himself to the extremist Taliban movement in Afghanistan. Iran is up in arms because Taliban gunmen killed Iranian diplomats in a city near the border after the Taliban gave assurances through Pakistan that the diplomats would not be hurt. Page 9.



Yevgeni Primakov awaiting vote.

Battle for the Presidency / A Cabinet Member's Harsh Words

By Stephen Labaton
New York Times Service

WASHINGTON — The report from the independent counsel, whose inquiry began four years ago with an examination of a complicated land deal called Whitewater and extended to investigations involving the White House travel office and the administration's use of FBI files, finds no offense by President Bill Clinton in any of those areas that would merit impeachment, according to lawyers with knowledge of the report's content.

The report, the lawyers said, does draw parallels between the president's conduct in the investigation of his relationship with Monica Lewinsky and the Arkansas aspects of the inquiry. Indeed, it was the argument of the independent counsel, Kenneth Starr, that there were parallels, that gained him jurisdiction eight months ago to investigate

a possible cover-up of Mr. Clinton's relationship with the White House intern.

But the report's section on impeachment charges — obstruction of justice, perjury, witness tampering and abuse of power — is grounded solely in Mr. Clinton's relationship to Ms. Lewinsky and his response to questions about it raised in a civil lawsuit, the lawyers said.

"It's fair to conclude that those other areas do not rise to the threshold of an impeachable offense," said John Bates, a former deputy independent counsel in the Whitewater inquiry. "It wouldn't make sense for the independent counsel to send two reports to Congress."

Allies of the independent counsel said Thursday that the fact that the report would be largely silent on the first three years of the inquiry, before the Lewinsky matter, meant only that the prosecutors had discovered no impeachable offenses in the many areas long under investigation by both Mr. Starr

and his predecessor as the Whitewater independent counsel, Robert Fiske. In other words, there is not likely to be a subsequent impeachment report to Congress dealing with these other issues.

While Mr. Starr is required to submit a final report on all aspects of his inquiry to a special court and he could still be critical of the White House for its handling of those matters, the filing of the impeachment report signals that after years of examination, those avenues of inquiry may soon close.

Mr. Clinton and his supporters have long accused Mr. Starr of straying too far from his original mandate. That the impeachment report relies almost exclusively on the Lewinsky episode and ignores whole areas of the long investigation is almost certain to be seized upon by some Clinton allies as evidence that the independent counsel has no real case to make other than one involving private matters that would not ordinarily

be prosecuted. But supporters of Mr. Starr noted that he had taken on all new areas of inquiry only with the approval of Attorney General Janet Reno. They also pointed to the narrow focus of the impeachment charges as a sign that Mr. Starr had conducted a fair investigation.

Investigators have spent four years examining whether the efforts by the president and Mrs. Clinton to suppress embarrassing details of their old financial dealings with the owners of a corrupt savings and loan association — in particular, their investment in the Whitewater real-estate development — amounted to a criminal cover-up or simply reflected an acceptable exercise in political damage control.

Last May, a federal grand jury in Arkansas completed a 30-month review of the matter by filing a single indictment, a criminal contempt case against Susan McDougal, one of the Clintons' business partners in the Whitewater land venture and an operator of the bank, the Madison Guaranty Savings and Loan of Little Rock.

While the court order appeared to focus on a rather discreet area, it also included a clause that granted Mr. Starr broad latitude. It said Mr. Starr also had jurisdiction to investigate serious crimes that may have been committed "by any person or entity developed during the independent counsel's investigation referred to above and connected with or arising out of that investigation."

Mr. Fiske had already expanded the inquiry, deciding to investigate Webster Hubbell, a close friend of the president's and a former Arkansas law partner of Mrs. Clinton's, on suspicion of stealing money from his former law firm and clients at the Rose Law Firm. Mr. Hubbell ultimately pleaded guilty to two felony counts of fraud and tax evasion.

Three years later, in seeking jurisdiction to investigate the president's relationship with Ms. Lewinsky, Mr. Starr argued that efforts by Mr. Clinton's friend Vernon Jordan to find the former intern a job paralleled earlier efforts by the president's allies, including Mr. Jordan, to help Mr. Hubbell in exchange

for silence. That was not the only time that the attorney general approved an expansion of Mr. Starr's mandate. In 1996, she agreed to expand the inquiry to include an examination of whether two Arkansas bankers had improperly funneled money into one of Mr. Clinton's campaigns for governor. The bankers were ultimately acquitted on some of the charges, and prosecutors agreed to drop the remaining case.

**Hillary Clinton
Stresses Her
'Forgiveness'**

New York Times Service

WASHINGTON — Hillary Rodham Clinton has declared her pride and admiration for her husband, after President Bill Clinton offered emotional apologies to senators and cabinet secretaries for misleading them over his relationship with Monica Lewinsky.

Appearing with the president at a gathering of Democratic donors here Thursday night, Mrs. Clinton gave him a rousing introduction, saying that he had "given faith again to people all over our country, that the American Dream can mean what it should mean."

She praised his "unrelenting determination to do what is best for America."

The president hugged her as he stepped to the lectern, and, beaming, she patted his back.

Her spokeswoman said the first lady "stresses her support, her love and her forgiveness" for her husband. Previous statements expressed love and support, but this was the first to use the word forgiveness.

**Clinton Spars
With Shalala
In Emotional
Staff Meeting**

By Robert G. Kaiser
and John F. Harris
Washington Post Service

WASHINGTON — At an emotional meeting with his cabinet, President Bill Clinton had a sharp exchange with his secretary of health and human services over her suggestion that the president believed enlightened policies could compensate for his failure to provide moral leadership, according to several participants.

Mr. Clinton invited the cabinet to his private residence on Thursday to apologize for the personal behavior that has led him into the worst crisis of his political career. With tears in his eyes at some points, Mr. Clinton pleaded for forgiveness and implored cabinet members to give him their support.

Many volunteered their backing, and talked in starkly personal terms about their feelings that the president had badly failed on a personal level but that he was on the path to redemption.

But Donna Shalala, the health and human services secretary, offered what two participants described as an unexpectedly "harsh" assessment.

The participants said Ms. Shalala rejected what she took as Mr. Clinton's implication that policies and programs were more important than whether he provided moral leadership.

"And then she said something like, 'I can't believe that is what you're telling us, that is what you believe — that you don't have an obligation to provide moral leadership,'" one participant recalled.

Mr. Clinton told his cabinet that he didn't care about the lying, but I'm appalled at the behavior.' And frankly, he whacked her, let her have it," this source said.

The president told Ms. Shalala that if her logic had prevailed in 1960, Richard Nixon would have been elected president instead of John Kennedy, the source said. After that, no other cabinet member had anything critical to say, the participant added.

Ms. Shalala declined to give any interviews after the session.

Two other participants, while recalling the same exchange, described it in somewhat softer tones. After first hearing Ms. Shalala, they said, Mr. Clinton responded calmly, saying he agreed that being a good person was just as important as being a good president.



J. Scott Applewhite/The Associated Press
Cabinet members talking about their meeting with the president. From left, Carol Browner, Rodney Slater, James Lee Witt and Dan Glickman.

JUSTINIAN
By H.N. Turteltaub. 511 pages.
\$26.95. *Forge*.

Reviewed by
Brian Jacomb

H.N. TURTELTAUB is the pseudonym for what the dust jacket calls "a well-known fiction writer who is also a respected scholar of Byzantine history." He sets his story at a time (the late seventh century) when the imperial family ruled the Roman Empire from its palace in Constantinople, a city built to withstand the fiercest of invaders.

Though Turteltaub's main focus is the life of Justinian II, he first paints a concise but frank portrait of Constantine IV, Justinian's father, who

died after suffering bouts of gout, kidney stones and finally dysentery brought on by eating fish swamped in rich sauces at the height of summer. As the reader soon learns, the two men were markedly different leaders.

One week after the old emperor's death, the 16-year-old Justinian assumes the crown with great pomp and ceremony. He is dressed in the official long red robe under a purple cloak with gold-embroidered borders that is ablaze with shimmering pearls. Over his chest he wears a jeweled scarf in the shape of the letter X to symbolize Christ's holy cross.

And finally he walks in the purple boots that are permitted to the emperor alone.

Constantine's death is not the first tragedy Justinian has endured in his short life: His younger brother has also died. With that in mind and with the continuation of his family line to consider, he quickly marries and then loses his beloved wife in childbirth. Completely distraught, he irrationally blames his daugh-

ter, who survived, and will have nothing to do with her.

After his coronation, Justinian replaces several of his father's ministers. The new batch, especially his treasury officials, are ruthless, and their brutal methods of tax collection, such as suspending holdouts over a smoky fire, evoke murderous rage in the populace. When the victim pleads their cases before Justinian, he either turns a deaf ear or has them thrown in prison to rot.

After a few years as emperor, Justinian grows ever more bohemian and stubborn. Lacking his father's patience and wisdom, he makes hasty decisions, ignoring the advice of his elders and taking the shortest route to satisfy his God-given rights.

Turteltaub describes a massive gathering of bishops in the imperial city and the political ramifications flowing from it. Like previous rulers, Justinian had wanted to dictate what the church should and should not do, even to the point of threatening his God-given rights.

Justinian's efforts to become "the whole" man he never was while on the throne.

Brian Jacomb, who frequently writes about historical fiction, wrote this for The Washington Post.

BOOKS

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**Away From
Politics**

A A mayoral commission in New York has urged the Police Department to prohibit off-duty officers from carrying guns when they drink. (NYT)

The U.S. Air Force extended indefinitely the grounding of its fleet of 110 British-made student training planes. Six air force fliers have died in three crashes in the planes since 1995. (Reuters)

Three large dogs attacked and killed an 8-year-old boy in Durham, North Carolina, after he climbed over a neighbor's backyard fence to visit an 8-year-old girl. The girl tried to save the boy by pinching the dogs in the face and covering him with her body. (AP)

A woman who was the lone teacher and principal in a one-room Christian school in southwest Virginia was indicted on Thursday for allegedly having a sexual affair with a former eighth grade student. (Reuters)

AMERICANS ABROAD
REGISTER NOW
TO VOTE
ELECT A
DEMOCRATIC HOUSE

**DEMOCRATS
ABROAD**
To vote absentee you must register and apply for a ballot NOW. Federal Post Card Applications are the easy way. Available from U.S. Consulates, military voting officers, and Democrats Abroad. The emergency last call is September 18 when DHL Worldwide Express will carry completed applications to the U.S. free of charge.

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U.S. MARINE CORPS

Battle for the Presidency / The Special Prosecutor's Report

The Associated Press

Following is an excerpt from the narrative section of the independent counsel's report to the House of Representatives. Readers should note that this excerpt contains sexually explicit passages.

Relationship With Monica Lewinsky

A. Introduction

This Referral presents substantial and credible information that President Clinton criminally obstructed the judicial process, first in a sexual harassment lawsuit in which he was the defendant and then in a grand jury investigation. The opening section of the Narrative provides an overview of the object of the President's cover-up, the sexual relationship between the President and Ms. Lewinsky. Subsequent sections recount the evolution of the relationship chronologically, including the sexual contacts, the President's efforts to get Ms. Lewinsky a job, Ms. Lewinsky's subpoena in Jones v. Clinton, the role of Vernon Jordan, the President's discussions with Ms. Lewinsky about her affidavit and deposition, the President's deposition testimony in Jones, the President's attempts to coach a potential witness in the harassment case, the President's false and misleading statements to aides and to the American public after the Lewinsky story became public, and, finally, the President's testimony before a federal grand jury.

B. Evidence Establishing Nature of Relationship

1. Physical Evidence

Physical evidence conclusively establishes that the President and Ms. Lewinsky had a sexual relationship. After reaching an immunity and cooperation agreement with the Office of the Independent Counsel on July 28, 1998, Ms. Lewinsky turned over a navy blue dress that she said she had worn during a sexual encounter with the President on February 28, 1997. According to Ms. Lewinsky, she noticed stains on the garment the next time she took it from her closet. From their location, she surmised that the stains were the President's semen.

Initial tests revealed that the stains are in fact semen. Based on that result, the OIC asked the President for a blood sample. After requesting and being given assurances that the OIC had an evidentiary basis for making the request, the President agreed, in the White House Map Room on August 3, 1998, the White House Physician drew a vial of blood from the President in the presence of an FBI agent and an OIC attorney. By conducting the two standard DNA comparison tests, the FBI Laboratory concluded that the President was the source of the DNA obtained from the dress. According to the more sensitive RFLP test, the genetic markers on the semen, which match the President's DNA, are characteristic of "one" out of 7.87 trillion Caucasians.

In addition to the dress, Ms. Lewinsky provided what she said were answering machine tapes containing brief messages from the President, as well as several gifts that the President had given her.

2. Ms. Lewinsky's Statements

Ms. Lewinsky was extensively de-briefed about her relationship with the President. For the initial evaluation of her credibility, she submitted to a detailed "proffer" interview on July 27, 1998. After entering into a cooperation agreement, she was questioned over the course of approximately 15 days. She also provided testimony under oath on three occasions: twice before the grand jury, and, because of the personal and sensitive nature of particular topics, once in a deposition. In addition, Ms. Lewinsky worked with prosecutors and investigators to create an 11-page chart that chronologically lists her contacts with President Clinton, including meetings, phone calls, gifts, and messages. Ms. Lewinsky twice verified the accuracy of the chart under oath.

In the evaluation of experienced prosecutors and investigators, Ms. Lewinsky has provided truthful information. She has not falsely incriminated the President. Harming him, she has testified, is "the last thing in the world I want to do."

Moreover, the OIC's immunity and cooperation agreement with Ms. Lewinsky includes safeguards crafted to ensure that she tells the truth. Court-ordered immunity and written immunity agreements often provide that the witness can be prosecuted only for false statements made during the period of cooperation, and not for the underlying offense. The OIC's agreement goes further, providing that Ms. Lewinsky will lose her immunity altogether if the government can prove to a federal district judge — by a preponderance of the evidence, not the higher standard of beyond a reasonable doubt — that she lied. Moreover, the agreement provides that, in the course of such a prosecution, the United States could introduce into evidence the statements made by Ms. Lewinsky during her cooperation. Since Ms. Lewinsky acknowledged in her proffer interview and in debriefings that she violated the law, she has a strong incentive to tell the truth: If she did not, it would be relatively straightforward to void the immunity agreement and prosecute her, using her own admissions against her.

3. Ms. Lewinsky's Confidants

Between 1995 and 1998, Ms. Lewinsky confided in 11 people about her relationship with the President. All have been questioned by the OIC, most before a federal grand jury: Andrew Bleier, Catherine Allday Davis, Neysa Erbland, Kathleen Estep, Deborah Fineerman, Dr. Irene Kassner, Marcia Lewis, Ashley Raines, Linda Tripp, Natalie Ungar, and Dale Young. Ms. Lewinsky told most of these confidants about events in her relationship with the President as they occurred, sometimes in considerable detail.

Some of Ms. Lewinsky's statements about the relationship were contemporaneously memorialized. These include deleted email recovered from her home computer and her Pentagon computer, email messages retained by two of the recipients, tape recordings of some of

Ms. Lewinsky's conversations with Ms. Tripp, and notes taken by Ms. Tripp during some of their conversations. The Tripp notes, which have been extensively corroborated, refer specifically to places, dates, and times of physical contacts between the President and Ms. Lewinsky.

Everyone in whom Ms. Lewinsky confided in detail believed she was telling the truth about her relationship with the President. Ms. Lewinsky told her psychologist, Dr. Irene Kassner, about the affair shortly after it began. Thereafter, she related details of sexual encounters soon after they occurred (sometimes calling from her White House office). Ms. Lewinsky showed no indications of delusional thinking, according to Dr. Kassner, and Dr. Kassner had no doubt whatsoever about the truth of what Ms. Lewinsky told her. Ms. Lewinsky's friend Catherine Allday Davis testified that she believed Ms. Lewinsky's accounts of the sexual relationship with the President because "I trusted in the way she had confided in me on other things in her life.... I trusted the relationship, so I trusted her." Dale Young, a friend in whom Ms. Lewinsky confided starting in mid-1996, testified:

"[I]f she was going to lie to me, she would have said to me, 'Oh, he calls me all the time. He does wonderful things. He can't wait to see me.' ... [S]he would have embellished the story. You know, she wouldn't be telling me, 'He told me he'd call me, I waited home all weekend and I didn't do anything and he didn't call and then he didn't call for two weeks.'

4. Documents

In addition to her remarks and email to friends, Ms. Lewinsky wrote a number of documents, including letters and draft letters to the President. Among these documents are (i) papers found in a consensual search of her apartment; (ii) papers that Ms. Lewinsky turned over pursuant to her cooperation agreement, including a calendar with dates circled when she met or talked by telephone with the President in 1996 and 1997; and (iii) files recovered from Ms. Lewinsky's computers at home and at the Pentagon.

5. Consistency and Corroboration

The details of Ms. Lewinsky's many statements have been checked, cross-checked, and corroborated. When negotiations with Ms. Lewinsky in January and February 1998 did not culminate in an agreement, the OIC proceeded with a comprehensive investigation, which generated a great deal of probative evidence.

In July and August 1998, circumstances brought more direct and compelling evidence to the investigation. After the courts rejected a novel privilege claim, Secret Service officers and agents testified about their observations of the President and Ms. Lewinsky in the White House. Ms. Lewinsky agreed to submit to a proffer interview (previous negotiations had deadlocked over her refusal to do so), and, after assessing her credibility in that session, the OIC entered into a cooperation agreement with her. Pursuant to the cooperation agreement, Ms. Lewinsky turned over the dress that proved to be bear traces of the President's semen. And the President, who had spurned six invitations to testify, finally agreed to provide his account to the grand jury. In that sworn testimony, he acknowledged "inappropriate intimate contact" with Ms. Lewinsky.

Because of the fashion in which the investigation had unfolded, in sum, a massive quantity of evidence was available to test and verify Ms. Lewinsky's statements during her proffer interview and her later cooperation. Consequently, Ms. Lewinsky's statements have been corroborated to a remarkable degree. Her detailed statements to the grand jury and the OIC in 1998 are consistent with statements to her confidants dating back to 1995, documents that she created, and physical evidence. Moreover, her accounts generally match the testimony of White House staff members; the testimony of Secret Service agents and of White House records showing Ms. Lewinsky's entries and exits, the President's whereabouts, and the President's telephone calls.

C. Sexual Contacts

1. The President's Accounts

a. Jones Testimony

In the Jones deposition on January 17, 1998, the President denied having had "a sexual affair," "sexual relations," or a "sexual relationship" with Ms. Lewinsky. He noted that "[t]here are no curtains on the Oval Office, there are no curtains on my private office, there are no curtains or blinds that can close [on] the windows in my private dining room," and added: "I have done everything I could to avoid the kind of questions you are asking me here today...."

During the deposition, the President's attorney, Robert Bennett, sought to limit questioning about Ms. Lewinsky. Mr. Bennett told Judge Susan Webber Wright that Ms. Lewinsky had executed an affidavit which [Ms. Jones's lawyers] are in possession of saying that there is absolutely no sex of any kind in any manner, shape or form, with President Clinton." In a subsequent colloquy with Judge Wright, Mr. Bennett declared that as a result of "preparation of [President Clinton]" for this deposition, the witness is fully aware of Ms. Lewinsky's affidavit.

The President did not dispute his legal representative's assertion that the President and Ms. Lewinsky had had "absolutely no sex of any kind in any manner, shape or form," nor did he dispute the implication that Ms. Lewinsky's affidavit, in denying "a sexual relationship," meant that there was "absolutely no sex of any kind in any manner, shape or form."

In subsequent questioning by his attorney, President Clinton testified under oath that Ms. Lewinsky's affidavit was "absolutely true."

b. Grand Jury Testimony

Testifying before the grand jury on August 17, 1998, seven months after his Jones deposition, the President acknowledged "inappropriate intimate contact" with Ms. Lewinsky but maintained that his January deposition testimony was accurate. In his account, "what began as a friendship [with Ms. Lewinsky] came to include [inappropriate contact]."

Ms. Lewinsky told him of her feelings.

He said he remembered "meeting her, or having my first conversation with her during the government shutdown in November of '95." According to the President, the inappropriate contact occurred later (after Ms. Lewinsky's internship had ended), "in early 1996 and once in early 1997."

The President refused to answer questions about the precise nature of his intimate contacts with Ms. Lewinsky, but did explain his earlier denial. As to his denial in the Jones deposition that he and Ms. Lewinsky had had a "sexual relationship," the President maintained that there can be no sexual relationship without sexual intercourse, regardless of what other sexual activities may transpire. He stated that "most ordinary Americans" would embrace this distinction.

The President also maintained that none of his sexual contacts with Ms. Lewinsky constituted "sexual relations" within a specific definition used in the Jones deposition. Under that definition:

[A] person engages in "sexual relation" when the person knowingly engages in or causes — contact with the genitalia, anus, groin, breast, inner thigh, or buttocks of any person with an intent to arouse or gratify the sexual desire of any person.... "Contact" means intentional touching, either directly or through clothing.

According to what the President testified was his understanding, this definition "covers contact by the person being depoed with the enumerated areas, if the contact is done with an intent to arouse or gratify," but it does not cover oral sex performed on the person being depoed. He testified:

If the deponet is the person who has oral sex performed on him, then the contact is with — not with anything on that list, but with the lips of another person. It seems to be self-evident that that's what it is.... Let me remind you, sir, I read this carefully.

In the President's view, "any person, reasonable person" would recognize that oral sex performed on the deponent falls outside the definition.

If Ms. Lewinsky performed oral sex on the President, then — under this interpretation — she engaged in sexual relations but he did not. The President refused to answer whether Ms. Lewinsky in fact had performed oral sex on him. He did testify that direct contact with Ms. Lewinsky's breasts or genitalia would fall within the definition, and he denied having had any such contact.

2. Ms. Lewinsky's Account

In his grand jury testimony, the President relied heavily on a particular interpretation as defined in the Jones deposition. Beyond insisting that his conduct did not fall within the Jones definition, he refused to answer questions about the nature of his physical contact with Ms. Lewinsky, thus placing the grand jury in the position of having to accept his conclusion without being able to explore the underlying facts.

This strategy — evidently an effort to account for possible traces of the President's semen on Ms. Lewinsky's clothing without undermining his position that he did not lie in the Jones deposition — mandates that this Referral set forth evidence of an explicit nature that otherwise would be omitted.

In light of the President's testimony, Ms. Lewinsky's accounts of their sexual encounters are indispensable for two reasons.

First, the detail and consistency of these accounts tend to bolster Ms. Lewinsky's credibility. Second, and particularly important, Ms. Lewinsky contradicts the President on a key issue. According to Ms. Lewinsky, the President touched her breasts and genitalia — which means that his conduct met the Jones definition of sexual relations even under his theory. On these matters, the evidence of the President's purvey cannot be presented without specific, explicit, and possibly offensive descriptions of sexual encounters.

According to Ms. Lewinsky, she and the President had ten sexual encounters, eight while she worked at the White House and two thereafter. The sexual encounters generally occurred in or near the private study off the Oval Office — most often in the windowless hallway outside the study. During many of their sexual encounters, the President stood leaning against the doorway of the hallway across from the study, which he told Ms. Lewinsky, caused his back.

Ms. Lewinsky testified that her physical relationship with the President included oral sex but not sexual intercourse. According to Ms. Lewinsky, she performed oral sex on the President, but she never performed oral sex on her.

Initially, according to Ms. Lewinsky, the President would not let her perform oral sex to completion. In Ms. Lewinsky's understanding, his refusal was related to "trust and not knowing me well enough."

During their last two sexual encounters, both in 1997, he did ejaculate.

According to Ms. Lewinsky, she performed oral sex on the President on nine occasions. On all nine of those occasions, the President fondled and kissed her bare breasts. He touched her genitalia, both through her underwear and directly, bringing her to orgasm on two occasions. On one occasion, the President inserted a cigar into her vagina. On another occasion, she and the President had brief genital-to-genital contact.

Whereas the President testified that "what began as a friendship came to include [inappropriate contact]," Ms. Lewinsky explained that the relationship moved in the opposite direction: "[T]he emotional and friendship aspects ... developed after the beginning of our sexual relationship."

c. Emotional Attachment

As the relationship developed over time, Ms. Lewinsky grew emotionally attached to President Clinton. She testified: "I never expected to fall in love with the President. I was surprised that I did."

Ms. Lewinsky told him of her feelings. At times she believed that he loved her too. They were physically affectionate: "A lot of hugging, holding hands sometimes. He always used to push the hair out of my face."

In subsequent questioning by his attorney, President Clinton testified under oath that Ms. Lewinsky's affidavit was "absolutely true."

d. Grand Jury Testimony

Testifying before the grand jury on August 17, 1998, seven months after his Jones deposition, the President acknowledged "inappropriate intimate contact" with Ms. Lewinsky but maintained that his January deposition testimony was accurate. In his account, "what began as a friendship [with Ms. Lewinsky] came to include [inappropriate contact]."

Ms. Lewinsky told him of her feelings.

He called him "Handsome"; on occasion, he called her "Sweetie," "Baby," or sometimes "Dear."

He told her that he enjoyed talking to her — she recalled his saying that two of them were "emotive and full of fire," and she made him feel young. He said he wished he could spend more time with her.

Ms. Lewinsky told confidants of the emotional underpinnings of the relationship as it evolved. According to her mother, Marcia Lewis, the President once told Ms. Lewinsky that she "had been hurt a lot or something by different men and that he would be her friend or he would help her, not hurt her."

According to Ms. Lewinsky's friend Neysa Erbland, President Clinton once confided in Ms. Lewinsky that he was uncertain whether he would remain married after he left the White House. He said in essence, "[W]hat happens four years from now when I am out of office?" Ms. Lewinsky thought, according to Ms. Erbland, that "maybe she will be his wife."

e. Conversations and Phone Messages

Ms. Lewinsky testified that she and the President "enjoyed talking to each other and being with each other." In her recollection, "We would tell jokes. We would talk about our childhoods. Talk about current events. I was always giving him my stupid ideas about what I thought should be done in the administration or different views on things."

One of Ms. Lewinsky's friends testified that, in her understanding, "[The President] would talk about his childhood and growing up, and [Ms. Lewinsky] would relay stories about her childhood and growing up. I guess normal conversations that you would have with someone that you're getting to know."

The longer conversations often occurred after their sexual contact. Ms. Lewinsky testified: "[W]hen I was working there [at the White House] ... we'd start in the back [in or near the private study] and we'd talk and that was where we were physically intimate, and we'd usually end up, kind of the pillow talk of it, I guess ... sitting in the Oval Office...." During several meetings when they were not sexually intimate, they talked in the Oval Office or in the area of the study.

Along with face-to-face meetings, according to Ms. Lewinsky, she spoke on the telephone with the President approximately 50 times, often after 10 P.M. and sometimes well after midnight. The President placed the calls himself or, during working hours, had his secretary, Betty Currie, do so; Ms. Lewinsky could not telephone him directly, though she sometimes reached him through Ms. Currie.

Ms. Lewinsky performed oral sex on the President, then — under this interpretation — she engaged in sexual relations but he did not. The President refused to answer whether Ms. Lewinsky had performed oral sex on him. He did testify that direct contact with Ms. Lewinsky was "feeling there [in the study] and we'd start up kind of the pillow talk of it, I guess ... sitting in the Oval Office...." During several meetings when they were not sexually intimate, they talked in the Oval Office or in the area of the study.

On 10 to 15 occasions, she and the President had phone sex. After phone sex late one night, the President fell asleep mid-conversation.

On four occasions, the President left very brief messages on Ms. Lewinsky's answering machine, though he told her that he did not like doing so because (in her recollection) he "felt it was a little unsafe." She saved his messages and played the tapes for several confidants, who said they believed that the voice was the President's.

By phone and in person, according to Ms. Lewinsky, she and the President sometimes had arguments. On a number of occasions in 1997, she complained that he had not brought her back from the Pentagon to work in the White House, as he had promised to do after the election.

In a face-to-face meeting on July 4, 1997, the President reprimanded her for a letter she had sent him that obliquely threatened to disclose their relationship. During an argument on December 6, 1997, according to Ms. Lewinsky, the President said that "he had never been treated as poorly by anyone else as I treated him," and added that "he spent more time with me than anyone else in the world, aside from his family, friends and staff, which I don't know exactly which category that put me in."

Testifying before the grand jury, the President confirmed that he and Ms. Lewinsky had had personal conversations and he acknowledged that their telephone conversations sometimes included "inappropriate sexual banter."

The President said that Ms. Lewinsky told him about "her personal life," "her upbringing," and "her job ambitions."

After terminating their intimate relationship in 1997, he said, he tried "to be a friend to Ms. Lewinsky, to be a counselor to her, to give her good advice, and to help her."

f. Gifts

Ms. Lewinsky and the President exchanged numerous gifts. By her estimate, she gave him about 30 items, and he gave her about 18. Ms. Lewinsky's first gift to him was a matted poem given by her and other White House interns to commemorate "National Boss Day," October 24, 1995. This was the only item reflected in White House records that Ms. Lewinsky gave the President before

R
Battle for the Presidency / The White House Rebuttal

The Associated Press

The following was issued by the White House on Friday. (In the text, OIC refers to Kenneth Starr's Office of Independent Counsel):

Summary of Key Points of the President's Case in Anticipation of the Starr Report.

1. The President has acknowledged a serious mistake — an inappropriate relationship with Monica Lewinsky. He has taken responsibility for his actions, and he has apologized to the country, to his friends, leaders of his party, the cabinet and most importantly, his family. This private mistake does not amount to an impeachable action. A relationship outside one's marriage is wrong — and the President admits that. It is not a high crime or misdemeanor. The Constitution specifically states that Congress shall impeach only for "treason, bribery or other high crimes and misdemeanors." These words in the Constitution were chosen with great care, and after extensive deliberations.

2. "High crimes and misdemeanors" had a fixed meaning to the Framers of our Constitution — it meant wrongs committed against our system of government. The impeachment clause was designed to protect our country against a President who was using his official powers against the nation, against the American people, against our society. It was never designed to allow a political body to force a President from office for a very personal mistake.

3. Remember — this report is based entirely on allegations obtained by a grand jury — reams and reams of allegations and purported "evidence."

that would never be admitted in court, that has never been seen by the President or his lawyers, and that was not subject to cross-examination or any other traditional safeguards to ensure its credibility.

4. Grand juries are not designed to search for truth. They do not and are not intended to ensure credibility, reliability, or simple fairness. They only exist to accuse. Yet this is the process that the Independent Counsel has chosen to provide the "evidence" to write his report.

5. The law defines perjury very clearly. Perjury requires proof that an individual knowingly made a false statement while under oath. Answers to questions that are literally true are not perjury. Even if an answer doesn't directly answer the question asked, it is not perjury if it is true — no accused has an obligation to help his accuser. Answers to fundamentally ambiguous questions also can never be perjury. And nobody can be convicted of perjury based on only one other person's testimony.

6. The President did not commit perjury. Most of the illegal leaks suggesting his testimony was perjurious falsely describe his testimony. First of all, the President never testified in the Paula Jones case. In her Pentagon job after she left the White House and did ask the White House personnel office to treat her fairly in her job search. He never instructed anyone to hire her, or even indicated he very much wanted it to happen. Ms. Lewinsky was never offered a job at the White House after she left — and it's pretty apparent that if the President had ordered it, she would have been.

10. The President did not facilitate Ms. Lewinsky's interview with Bill Richardson, or her discussions with Ver-

an improper sexual relationship with Ms. Lewinsky. In a civil deposition, he gave narrow answers to ambiguous questions. As a matter of law, those answers could not give rise to a criminal charge of perjury. In the face of the President's admission of his relationship, the disclosure of lurid and salacious allegations can only be intended to humiliate the President and force him from office.

8. There was no obstruction of justice. We believe Betty Currie testified that Ms. Lewinsky asked her to hold the gifts and that the President never talked to her about the gifts.

The President admitted giving and receiving gifts from Ms. Lewinsky when he was asked about it. The President never asked Ms. Lewinsky to get rid of the gifts and he never asked Ms. Currie to get them. We believe that Ms. Currie's testimony supports the President's defense.

9. The President never tried to get Ms. Lewinsky a job after she left the White House in order to influence her testimony in the Paula Jones case. The President never asked Ms. Lewinsky to get rid of the gifts and he never asked Ms. Currie to get them. We believe that Ms. Currie's testimony supports the President's defense.

12. There is no "talking points" smoking gun. Numerous illegal leaks painted the mysterious talking points as the proof that the President or his staff attempted to suborn the perjury of Monica Lewinsky or Linda Tripp. The OIC's spokesman said that the "talking points" were the "key" to Starr even being granted authority to investigate the President's private life. Yet in the end, Ms. Lewinsky has apparently admitted the talking points were written by her alone for with Ms. Tripp's assistance, and the President was not asked one single question about them in his grand jury appearance.

13. Invocation of privileges was not an abuse of power. The President's lawful assertion of privileges in a court of law was only made on the advice of his Counsel, and was in significant measure validated by the courts. The legal claims were advanced sparingly and as a last resort after all attempts at compromise by the White House Counsel's office

were rejected to protect the core constitutional and institutional interests of this and future presidencies.

14. Neither the President nor the White House played a role in the Secret Service's lawful efforts to prevent agents from testifying to preserve its protective function. The President never asked, directed or participated in any decision regarding the protective function privilege. Neither did any White House official. The Treasury and Justice Departments independently decided to respond to the historically unprecedented subpoenas of Secret Service personnel and to pursue the privilege to ensure the protection of this and future presidents.

15. The President did not abuse his power by permitting White House staff to comment on the investigation. The President has acknowledged misleading his family, staff and the country about the nature of his relationship with Ms. Lewinsky, and he has apologized and asked for forgiveness. However, this personal failing does not constitute a criminal abuse of power. If allowing aides to repeat misleading statements is a crime, then any number of public officials are guilty of misusing their office for as long as they fail to admit wrong doing in response to any allegation about their activities.

16. The actions of White House attorneys were completely lawful. The White House Counsel attorneys provided the President and White House officials with informed, candid advice on issues raised during this investigation that affected the President's official duties. This was especially necessary given the fact that impeachment proceedings against the President were a possible result of the

OIC's investigation from Day One. In fact, throughout the investigation, the OIC relied on the White House Counsel's office for assistance in gathering information and arranging interviews and grand jury appearances. The Counsel's office's actions were well known to the OIC throughout the investigation and no objection was ever voiced.

This means that the OIC report is left with nothing but the details of a private sexual relationship, told in graphic detail with the intent to embarrass. Given the flimsy and unsubstantiated basis for the accusations, there is a complete lack of any credible evidence to initiate an impeachment inquiry concerning the President. And the principal purpose of this investigation, and the OIC's report, is to embarrass the President and titillate the public by producing a document that is little more than an unreliable, one-sided account of sexual behavior.

Where's Whitewater? The OIC's allegations reportedly include no suggestion of wrongdoing by the President in any of the areas which Mr. Starr spent four years investigating: Whitewater, the FBI files and the White House travel file. What began as an inquiry into a 24 year old land deal in Arkansas has ended as an inquiry into brief, improper personal encounters between the President and Monica Lewinsky. Despite the exhaustive nature of the OIC's investigation into the Whitewater, FBI files and travel office matters, and a constant stream of suggestions of misconduct in the media over a period of years, to this day the OIC has never exonerated the President or the First Lady of wrongdoing.

POLITICAL NOTES**British Are Betting Clinton Will Quit**

LONDON — A British gambling firm reported a flood of bets Friday on how long Bill Clinton will remain the U.S. president, most from bettors expecting him to quit within months.

"There has been an enormous amount of trade," said Patrick Jay, head of the sports operation, called IG Index, which also handles political bets.

IG Index operates on a different basis from ordinary bookmakers. Instead of offering odds on a particular outcome, it quotes a "spread."

The "spread" on Mr. Clinton's term of office, which has already lasted 20 months, is 25 to 29 months.

If Mr. Clinton left office this weekend, for example, a bettor taking a "short" position would be paid five times his or her stake. But if Mr. Clinton served out his full 48-month term, the better would owe IG 23 (48 minus 25) times the stake.

Conventional bookmakers are declining for now to open a book on Mr. Clinton. (Reuters)

Senate Vote Blocks Financing Reform

WASHINGTON — The Senate has again blocked action on legislation to tighten the nation's campaign finance laws, dooming its last flickering chance for passage this year.

Unmoved by House approval of a similar measure last month, Republican foes of the bill held firm as the bill — for the second time this year — won support of a majority of senators but fell eight votes short of the 60 needed to force it to a vote. The vote Thursday was 52 to 48.

Democratic backers of the bill vowed to continue pushing for approval of the measure before Congress adjourns next month.

"We will proceed on the issue this year until we get the job done," said Senator Russell Feingold of Wisconsin, the chief Democratic sponsor of the bill, indicating he intends to bring it up as an amendment to other bills. (WP)

Setback to Inquiry On Fund-Raising

WASHINGTON — A federal judge has delivered a harsh setback to Attorney General Janet Reno's campaign finance investigation, throwing out much of the government's case against Maria Hsia, a Democratic fund-raiser after finding that it was built on a prosecution theory that "defies logic."

U.S. District Judge Paul Friedmann dismissed five of six felony charges Thursday against Ms. Hsia, one of the few key figures indicted in the 22-month Justice Department investigation of alleged fundraising abuses by the 1996 Clinton-Gore re-election effort. Ms. Hsia first came to public attention for her role in organizing a 1996 campaign event held at a California Buddhist temple that was attended by Vice President Al Gore.

Watching and listening from afar, an old Washington hand, Alan Simpson, retired senator of Wyoming, stayed in touch with his old Washington buddies from his new perch as director of the Institute of Politics at Harvard's Kennedy School of Government.

"The engines in Washington are melting!" he boomed in one phone conversation, offering parody, but wistfulness, too. "I can smell it: the energy level. The excitement level. It's out there. It's a huge generator. It's whirring. It's burning its bearings."

"Something's going to happen. Is it impeachment? Is it resignation?"

Clinton's Woes Pose Re-election Hurdle for Women in Senate

By Francis X. Clines
New York Times Service

WASHINGTON — There is a grim joke current among Senators Barbara Boxer, Carol Moseley-Braun and Patty Murray, the victors of the "Year of the Woman" elections of 1992, when the notion that some male politicians "just don't get it" helped drive their successful campaigns.

"Now we're running again in what we call the 'Year of the Woman Target,'" Ms. Moseley-Braun said, noting that all three Democratic women, who first won amid a wave of voter concern about the issue of sex and politics, are in tight re-election races.

Campaigning, they made a banner issue of sexual harassment in the political workplace, brought to prominence in Anita Hill's testimony at Supreme Court confirmation hearings for Clarence Thomas. The new senators then pushed forward the Senate ethics process that led to the resignation of Bob Packwood in the face of allegations of sexual misconduct.

Like a Rerun, Clinton Keeps Saying 'Sorry'

New York Times Service
Since President Bill Clinton's address to the nation last month, in which he acknowledged having had an "inappropriate relationship" with Monica Lewinsky, he has spoken several times about his regrets and remorse. Following are excerpts.

Aug. 17 (in a televised address to the nation):

"Indeed, I did have a relationship with Ms. Lewinsky that was not appropriate. In fact, it was wrong. It constituted a critical lapse in judgment and a personal failure on my part for which I am solely and completely responsible.

"I know that my public comments and my silence about this matter gave a false impression. I misled people, including my wife. I deeply regret that."

Sept. 2 (at a Kremlin news conference in Moscow):

"I have acknowledged that I made a mistake, said that I regretted it, asked to be forgiven, spent a lot of very valuable time with my family in the last couple of weeks and said I was going back to work.

"I thought it was clear that I was expressing my profound regret to all who were hurt and to all who were involved, and my desire not to see any more people hurt by this process and caught up in it."

Sept. 4 (during a picture-taking session in Dublin with Ireland's prime minister):

"I've already said that I made a bad mistake, it was indefensible and I'm sorry about it. So I have nothing else to say except that I can't disagree with anyone else who wants to be critical of what I have already acknowledged was inadmissible."

Sept. 9 (at an afternoon fundraiser in Orlando, Florida, for Lieutenant Governor Buddy Mackay, the Democratic candidate for governor):

"I have been your friend. I've done my best to be your friend. But I also let you down, and I let this country down. But I'm trying to make it right. And I'm determined never to let anything like that happen again."

"So I ask for your understanding, for your forgiveness on this journey we're on."

And in Coral Gables, Fla.:

"I've tried to do a good job taking care of this country, even when I haven't taken such good care of myself and my family, my obligations. I hope that you and others I have injured will forgive me for the mistakes I've made."



Tom Daschle leaving a meeting with the president and Senate colleagues

Web Lets Americans Judge Clinton's Behavior Instantly

Washington Post Service

WASHINGTON — When the 445-page summary of independent counsel Kenneth Starr landed on the Internet on Friday afternoon, it hardly started an online dissection of President Bill Clinton.

Despite what Congress or party leaders might decide, hundreds of thousands of people have been conducting "impeachment hearings" on Mr. Clinton in newsgroups and on Web sites for months.

The global network of computers has caused a major change in the way American society views its public affairs.

A similarly thorough shift occurred in 1994 when another new technology, television, altered public opinion with live broadcasts of the Army-McCarthy hearings. Television allowed Americans to see their representatives at work as they investigated Senator Joseph McCarthy's conduct.

"I have been your friend. I've done my best to be your friend. But I also let you down, and I let this country down. But I'm trying to make it right. And I'm determined never to let anything like that happen again."

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been a major factor in the scandal.

Many have watched the saga unravel on their computer screens, from Matt Drudge's early leak of a Newsweek article about Mr. Clinton's relationship with Monica Lewinsky to the Internet's "Year of the Woman" elections of 1992, when the notion that some male politicians "just don't get it" helped drive their successful campaigns.

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Reaping the Whirlwind, At a Still Unknown Cost

Something's Going to Happen, Ex-Senator Says As Tourists Marvel at the Hordes of TV Crews

By Francis X. Clines
New York Times Service

WASHINGTON — Bracing himself for a long, tough defense of President Bill Clinton, the Senate minority leader, Tom Daschle, was the first to stand before open microphones and yearn for "closure," the cliché word of modern tragedy and its wished-for ending by struck participants.

His counterpart in the House, Dick Gephardt, the minority leader, seemed no less dolorously burdened by the possibility of an impeachment process.

"We don't do this often, thankfully," he said Thursday, speaking outside the chamber while lawmakers within, as if in escape, talked of such issues as imaginary bird-hunting regulations and the English Language Fluency Act.

"You do not overturn an election of the American people on a whim," Mr. Gephardt said darkly.

Six blocks away, the Starr report rest through what was a generally excruciating day of waiting on Capitol Hill, a boxed-up epic under lock and armed guard, ready to be cued up for its presentation Friday to the lawmakers and all consuming of a whirlwind to be reaped at some still unknown cost.

"I feel sadness," said Gloria Steele, a 61-year-old retiree visiting from Louisville, sitting on a shaded park bench as the Capitol dome gleamed gloriously against the blue sky. "We'll be changed by these events with Clinton, by the lack of trust. I grew up in an era when presidents and Sunday school teachers were role models."

Her husband, Sam, was quietly fuming at what he described as the "greed-driven, money-driven" world of Washington politics.

"That's the canary, the money," he said, nodding toward the Capitol. "It's the moral compass for the people who can survive in the political system we have structured — the Bill Clintons of the world."

The Steeles moved up the Capitol garden path past a scale-strewn pen where, as the noon hour approached, a mass of assorted television reporters poised at a thicket of cameras suddenly gathered, their thoughts and primped their hair in near unison, seconds before the midday bulletins.

A group of foreign tourists seemed

"I feel sadness. I grew up in an era when presidents and Sunday school teachers were role models."

A Louisville retiree

intrigued.

"I've never seen so many of the TV people here — for reasons that I don't need to verbalize," their guide, David Loving, announced loudly. "I don't know what to give you first — current politics or history. I guess I'll give you history because at least it's

cietal Fabric

White House Rebuttal Rejects Starr Charges

Aides Planned Counteroffensive in Secret

Compiled by Our Staff Foreign Despatch

WASHINGTON — The White House on Friday acted to preempt allegations in the report by the independent counsel, sending a rebuttal to Congress declaring that President Bill Clinton did not commit perjury, obstruct justice, tamper with witnesses or abuse the power of his office.

The report was part of a major counteroffensive, carefully planned in secret over the last few days by the president's top troubleshooters. It was preceded earlier in the day by a dramatic and emotional statement by the president himself that included his first public apology to Monica Lewinsky.

Many sides believe that speed is of the essence in responding to the Starr report, since public opinion may be exceptionally fluid once all details became public.

The White House report said Mr. Clinton had acknowledged having had an improper sexual relationship with Ms. Lewinsky but added: "The disclosure of lurid and salacious allegations can only be intended to humiliate the president and force him from office."

"Impeachment is a matter of incomparable gravity," Mr. Clinton's personal and White House lawyers wrote. "Even to discuss it is to discuss overturning the electoral will of the people."

"We do not believe the OIC (Office of Independent Counsel) can identify any conduct remotely approaching" the impeachment standard, said the 73-page rebuttal written by the attorney David Kendall and the White House counsel, Charles Ruff, and their associates.

"Instead from press reports, if true, it appears that the OIC has dangerously overreached to describe in the most dramatic of terms conduct that not only is not criminal but is actually proper and lawful," they added.

The report was released by the White House less than an hour after lawmakers voted to make public a report by Mr. Starr that is expected to accuse him of 11 impeachable offenses.

Among them: perjury, obstruction of justice, witness tampering and abuse of presidential power in his effort to conceal a relationship with Ms. Lewinsky.

The White House spokesman Joe Lockhart said the rebuttal, dispatched to a half-dozen House leaders, was not based on any advance peek at the report. "We don't know what's in the report, but we can read the newspapers," he said.

"We have been trying to make sure the public understands that these are the

prosecutor's accusations," said another White House official. "It is necessarily one-sided and it requires a response."

The White House rebuttal said that Mr. Clinton had acknowledged "a serious mistake" in his relationship.

"This private mistake does not amount to an impeachable action," the report said. It went on to say that Mr. Starr's report was based "entirely on allegations obtained by the grand jury" and said that grand juries "are not designed to search for the truth."

Denying all the allegations of criminal misconduct, the report asserted:

"This means that the OIC report is left with nothing but the details of a private sexual relationship, told in graphic detail with the intent to embarrass."

The report dismissed as "meritless" Mr. Starr's attempts to evoke images of Watergate by charging that the president has abused the powers of his office.

Mr. Clinton's lawyers asserted that President Nixon's use of the CIA to thwart an FBI criminal investigation of himself fit the constitutional framers' definition of corrupt use of the office for personal gain.

But, the lawyers wrote, Mr. Clinton's "lawful assertion of privilege in a court of law" and the White House counsel office's conduct of its official duties "plainly does not."

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David Kendall, President Clinton's attorney, leaving the U.S. Capitol on Friday after having been denied an early look at the Starr report.

(AP/WP, Reuters)

CONFESS: Clinton Says 'I Sinned' and Apologizes to Lewinsky

Continued from Page 1

Mr. Jones, a professor emeritus at the University of Wisconsin, called the speech "Vintage Clinton" and said that it was "exceptionally carefully crafted." But he asserted that what Mr. Clinton was seeking to do was to offer "essentially a personal solution to what has become a public problem."

"The fact is," he added, "the House now has a report and there is a process for dealing with that report, and it is not a matter for personal resolution by the president."

Mr. Jackson, who has met frequently with the Clinton family to help them deal with the Lewinsky revelations, said of the speech:

"It was a very powerful and moving appeal that should go far, because people are trying to balance off this need for him to show genuine repentance on one hand and take care of the nation's business on

the other." Asked how Mr. Clinton was holding up, Mr. Jackson, one of several ministers to come to the podium after the president's speech to offer words of support, replied, "I was very impressed with his strength and his will to serve."

While speaking about his repentance, Mr. Clinton also announced that he would instruct his lawyers to "mount a vigorous defense, using all available appropriate arguments."

But then he added:

"I will continue on the path of repentance, seeking pastoral repentance and that of other caring people so that they can hold me accountable for my own commitment."

He also vowed to "intensify my efforts to lead our country and the world toward peace and freedom, prosperity and harmony, in the hope that, with a broken spirit and a still-strong heart, I can be used for greater good."

"If my repentance is genuine and sus-

tained and if I can maintain both a broken spirit and a strong heart, then good can come of this for our country, as well as for me and my family," he said.

The clergy members interrupted him then with 15 seconds of applause. When he concluded his comments, they stood and applauded loudly for nearly a minute. Afterward, some of the 100 ministers, rabbis and other clergy present praised the president for what they said seemed to be heartfelt penance.

"He couldn't be more contrite," said the Reverend Fred Davie of the First Presbyterian Church in Brooklyn, New York. "Anybody who couldn't see that has another agenda altogether."

Rabbi Edward Cohn of Los Angeles said, "I love this man. I've been surprised how unforgiving religious leaders seem to be," alluding to criticism from around the country. "I want to see him continue what he's started. He's good for America."

Continued from Page 1

John Podesta, he specifically did not have oral sex with Ms. Lewinsky.

Specifically, the Starr report contends that Mr. Clinton did these things:

• Lied under oath in his deposition in the Paula Jones sexual harassment case against him, which was later dismissed by denying that he had had sexual relations with Ms. Lewinsky.

• Lied when questioned Aug. 17 about the Lewinsky matter before the grand jury.

• Tried to influence potential grand jury witnesses — Ms. Lewinsky and his White House secretary, Betty Currie — to testify falsely.

• Tried to obstruct justice by urging Ms. Lewinsky not to turn over to the Jones attorneys some 20 presidential gifts.

• Tried to encourage a witness, Ms. Lewinsky, to file a false affidavit in the Jones case.

• Lied to potential grand jury witnesses, including some of his top aides, knowing that they would repeat those lies before the grand jury.

• Engaged in a pattern of conduct inconsistent with his constitutional duty to faithfully execute the nation's laws.

The strongly worded defense from the White House noted that Mr. Clinton had acknowledged having had an improper relationship with Ms. Lewinsky and added: "The disclosure of jurid and salacious allegations can only be intended to humiliate the president and force him from office."

Mr. Clinton's lawyers argued in effect that while he had made mistakes and in some cases misled people, he had committed no impeachable offense.

"We do not believe the OIC," or Office of Independent Counsel, "can identify any conduct remotely approach-

ing" the impeachment standard, said the White House document, written by Mr. Clinton's private attorney, David Kendall, and the White House counsel, Charles Ruff.

The White House paper, part of a defense of the president planned days ago, said that the Starr report was "left with nothing but the details of a private sexual relationship told in graphic detail with the intent to embarrass."

With the report on the Internet, accessible to millions in the United States and abroad, and several major newspapers publishing extensive excerpts or even the full document, Americans will now become more direct if unenthusiastic, participants in the process by which Mr. Clinton will be judged.

"It's Main Street that's going to decide this now," said Stephen Hess, author of "Presidents and the Presidency."

The Times said that unless Mr.

Clinton could prove, without relying on "incredible legal constructions" that Kenneth Starr's charges of perjury and obstruction of justice are false, he should go quietly.

In Germany, the conservative *Die Welt* conceded that the president "had lied," but said that forcing him out of office "would be way out of line with the fault committed," which it called "a completely private affair."

Papers in Italy were more concerned with the economic fallout worldwide if the U.S. Congress decides, after examining the independent counsel's report, that the president should be impeached and removed from office.

Still others denounced what they considered a "demeaning spectacle in the world's most powerful nation," as the *Daily Mail* in London put it, warning that "it may be a long time before Washington can regain the moral authority to match its undoubted economic and military power."

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The Communist daily *Le Humanite* said: "Washington, Lincoln, wake up, they've all gone crazy. This would all be a joke if the business were not so serious." The economic daily *Le Tribune* said, meanwhile, "American puritanism has paid back with a psychodrama of surrealistic dimensions."

In Switzerland the press gave Mr. Clinton little chance to finish out a term that is to run through January 2001.

"The credibility of the world's policeman is henceforth damaged and the total uncertainty and risk of paralysis, both inside and out, is extremely worrisome," said *Le Matin* of Geneva. *Le Tribune* said: "Bill Clinton completely absorbed by his own destiny and no longer directs the country."

The Independent in London, while conceding that Mr. Clinton's behavior did not equal the crimes of Richard Nixon, said he had "brought it upon himself" and should resign rather than drag things out and risk impeachment.

And the conservative *Daily Telegraph* ridiculed Mr. Clinton's state of apathy: "Mr. Clinton saying sorry is really just another version of Mr. Clinton lying — the last and most desperate version perhaps." It added that if he were truly sorry, "he would be leaving the Oval Office for good."

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ART

Drama in Details

Pieter de Hooch, a Dutch Master Who Elevated the Ordinary

By Souren Melikian

International Herald Tribune

LONDON — It took 314 years for one of the great masters of Dutch art to be awarded the honor of a one-man show. It is because Pieter de Hooch (1629-1684), who died in a madhouse at the age of 55, was so poor and solitary that no one recorded his death, excepting the scribe of a parish register?

As they walk through the admirable show, on view until Nov. 15 at the Dulwich Picture Gallery, some may scrutinize the 41 pictures that cover the 20 years or so of his creative period in search of early signs of De Hooch's sickness. There aren't any, with the possible exception of the last picture, "A Musical Company in a Courtyard," dated 1677, which betrays uncharacteristic clumsiness.

If ever there was a painter that seemed untroubled, this is Pieter de Hooch. There is a quietness about his pictures that singles him out. While Rembrandt probed the unfathomable tragedy of the human condition, De Hooch set out to capture those silent moments when barely formulated emotions are triggered by a sound, a look, a gesture, a set of trifling circumstances.

He did so from the beginning, even when his first pictures, inspired by tavern scenes of Adriaen Brouwer or his Rotterdam followers, could have sunk to the level of genre painting.

Nothing is further removed from Brouwer's penchant for the pictorially satirical than De Hooch's art. In "The Merry Drinker," the bibulous character raising his glass, far from being funny, looks smirky, as does the second drinker in a big hat. Across the table, an elderly man seems to have been smitten by anxiety. The darkness of the rest of the room matches the threatening mood.

Another picture, on loan from the Hermitage, which might have been flippancy, has the gravity of a parable. A middle-aged woman peeling potatoes which she gathers in her folded apron smiles, radiant with surprised pleasure, as a cavalier in a fashionable attire bows to her, hat in hand, offering her a glass of wine. The shadow of a smile plays on his lips. But this is no mockery. It is an unexpected courtesy from a traveler on his way who has been put up for the night in a modest house and it takes place under her husband's eye. There is no suggestion of dallying.

A unique attitude for identifying with others regardless of age and condition appears to have inspired De Hooch with a fascination for these brief encounters of daily life, when humans sound each other out. Alone among 17th-century artists, De Hooch endlessly scrutinized the rap-

port between mothers and daughters. In a courtyard scene set in a poor Delft neighborhood, a woman washing her laundry in a bucket pauses as she looks down at a little girl of 6 or 7 standing awkwardly. A silent smile lights up her face. It could have been sappy. Instead, it is as vigorous as it is understated.

In another scene set in wealthier surroundings, a little girl kneels in front of her mother, burying her head in her skirts while the mother gently runs her hands through her daughter's hair. A soft late morning light comes in at a slant through a high window and makes the waxed brick red tiles of the floor gleam. A small dog seated on its hind legs, its back turned to the viewer, watches the pair in hopeful expectation. This scene of intimate exchange without words is one of the most poetical pictures painted in 17th-century Holland.

Deeply responsive to human relationships, the artist made observations not often found in his contemporaries' works. The frowning resentment of a serving woman standing in a courtyard with a stoneware jug in one hand and a bucket in the other, head bent toward her mistress who sits in a chair, busily spinning, keenly observed. The cruelty of the situation is emphasized by the peaceful harmony of the surroundings.

NOT much escaped the painter's unforgiving incisiveness. Portraying a whole family in a Delft courtyard, De Hooch painted a compressed version of "The Human Comedy." There is the well-dressed middle-aged bourgeois who fancies himself mighty, standing one arm akimbo next to his wife. She looks every bit as smug as she lifts her skirt in an attempt at gentility, with a smile feigning amusement. There is the fate-looking elderly woman with pursed lips and hair dyed orange who sits at a table resolutely ignoring a couple from her own generation, perhaps her sister and brother-in-law. Behind, it would seem, tragedy looms. A cavalier walks toward the viewer, looking distraught. Two steps up, a man inspects the scene with an imperious expression. It is all subtly indicated. One almost wonders whether the tension is real or imagined.

Some of De Hooch's paintings have a Henry Jamesian ambiguity. In a palatial residence, a young woman on whose pretty face the onset of coming middle age leaves a shadow smiles at a cavalier. The man in a wide-brimmed hat holds his slender pipe with a mix of self-conscious affection and insolence.

Both are watched by an elderly couple — he with a jug, ready to pour out more wine, she looking rather anxious. On the wall, a picture, "Jesus and the Adulteress," flashes a warning while in the



Detail of "The Merry Drinker" by Pieter De Hooch.

distance a silver statue of Mercury, the god of commerce and the protector of thieves, introduces an even more somber nuance.

By the mid-1660s, De Hooch was sufficiently well known to be mostly portraying the high and mighty. He remained as fascinated as ever by emotions experienced in ordinary situations. In a rich house, a young girl in her teens flashes a smile at her older sister while a cavalier fussy dressed puffs at his pipe, with one leg crossed over the other. Every detail speaks of wealth, but not all is well in the best of worlds. Over a monumental Dutch armoire, a Mannerist painting deals with the theme of "Adam and Eve Embracing After the Fall."

Around 1668-70, De Hooch painted one of his last masterpieces. A woman in expensive clothes nervously presses her dog against her body as she reads a letter with intense concentration. She is in shock, while a youthful messenger

stares out of a window, with a bored look as he sips some wine. Behind, in the dark, a pregnant woman turns her head with a weary smile to glance at her.

The painter's career was drawing to a close. He probably sank into poverty, for in 1674 he did not make it to the tax register. We know nothing about the onslight of madness. No detail is available from the moment the youngest of De Hooch's seven children was christened in 1672 until his death in an Amsterdam madhouse in 1684. The man who probed the innermost feelings of others died in the solitude of a mind that no longer communicated with others.

The pace of the exhibition hung with elegant simplicity enhances the drama. The book written by Peter Sutton gathers all the facts about this fascinating master from a poor working class background. But as the reader closes it, he is still left without a clue as to the private thoughts of an artist who left no writings.

VENICE FILM FESTIVAL

Dredging Around For Promising Movies

By Roderick Conway Morris

International Herald Tribune

VENICE — "No worse, there is none," as the Victorian poet Gerard Manley Hopkins wrote in the grip of a black mood, and the line was beginning to look like a suitable epitaph for the bulk of the productions screened at the Venice Film Festival, which ends Saturday.

Of the latest batch of in-competition films, Pat O'Connor's "Dancing at Lughnasa" held out some hope. Based on a successful stage play by Brian Friel, it is set in the mid 1930s in the depths of Eamon de Valera's Catholic rural Ireland, with pagan undertones provided by the local survival of the pre-Christian Lughnasa harvest festival.

Schoolmarm Kate (Meryl Streep) rules a family of five sisters with an iron rod, the only man in the household being Michael (wimminy played by Darrell Johnston), the 8-year-old illegitimate son of Christina (Catherine McCormack), and a frail, dotty uncle, Father Jack Mindy (Michael Gambon), who has just returned from 25 years as a missionary in Africa, having gone native, and left his marbles along with his religious faith.

The gradual decline of the women into terminal disappointment and bucolic imbecility is momentarily arrested by tensions created by a visit from Michael's absentee father, Gerry Evans (Rhys Ifans), about to depart for (where else?) the Spanish Civil War to join (what else?) the International Brigade.

The cinematography is lush, although judging by the endless number of sunny days in the film, the summer of 1936 must have been the driest in Irish history. The accents would indicate that the various members of the family seem to come from different regions of the Emerald Isle, and the film ends up an unsustaining potage of nostalgia, blamey and banality.

Other in-competition candidates, the Portuguese Joao Botelho's "Traffic" (Traffic), the Romanian Lucian Pintilie's "Terminus Paradis" (Last Stop Paradise) and the Italian Gianni Amelio's "Così Ridivano" (officially translated as "The Way We Laughed"), were all depressingly representative of certain self-indulgent, self-regarding tendencies in art-house cinema that seem to equate seriousness with the mind-numbing lingering shot and stylifying boredom.

Happily, toward the end of the week, like a meteor illuminating the general gloom, the Indian director Shekhar Kapur's "out-of-competition" "Elizabeth" burst upon the scene. The drama revolves around the first years of Elizabeth I's reign, when the young English queen was beset with plots to topple her, the country in danger of being torn apart by Protestant and Catholic rivalries, and

foreign powers poised to invade.

"Elizabeth" is visually beautiful, making brilliant use of light and dark effects, and the dialogue and interaction of the characters strikes an artful balance between courtly formality and human spontaneity. Cate Blanchett is stunning to look at and gives a superb performance as Elizabeth, ably supported by Geoffrey Rush as Sir Francis Walsingham, her spymaster and head of security, and a consistently well-acted cast.

The comic relief promised by Woody Allen's "Celebrity," also premiered out of competition, was only partially fulfilled. Kenneth Branagh plays Lee Simon, a journalist who camps his wife of many years, Robin (Judy Davis), to go in pursuit of more glamorous fare. Given that Lee, despite seeming to be an obvious jerk, has no difficulty in catching the eye of rich and beautiful young women, it was perhaps wise of Allen to give the part to a younger man. But Branagh has mastered Allen's manner and speech so perfectly that it is hard to work out whether the director has achieved some Svengali-like hold over Branagh or whether the British actor is unconsciously sending Allen up.

Billed as a satire on the absurdity of the cult of celebrity in America, the film's problem is that it has become almost impossible to out-gross reality. "Guest stars" include Melanie Griffith and Leonardo DiCaprio, with Winona Ryder backing into the limelight in the role of an "extra." There are, as always, good gags, but by the director's highest standards this is a low-octane event.

"Poodle Springs," which features Raymond Chandler's older, newly married private investigator Philip Marlowe, existed only in sketch form at the writer's death and was completed by another hand. Marlowe's self-reflecting solitariness is such an essential keynotes of his character that it was always going to be anomalous to send him strolling down "those mean streets" arm-in-arm with Mrs. Marlowe. And to remove him from his natural urban habitat is to deprive him of the dark side of his soul.

THE playwright Tom Stoppard's script makes a brave attempt to resolve these contradictions, as does James Caan's performance as the mature Marlowe, a fish out of water in the desert resort of Poodle Springs, and is in visible danger of expiring for lack of his daily dose of L.A. low life, crime and moral grime.

Consequently, the film, directed by Bob Rafelson and set in a kind of never-never land stylistically suspended between the 1940s and early 1960s, when the action takes place, never really gets off the ground. It will certainly seem a thin experience to anyone familiar with the books and the classic film adaptations.

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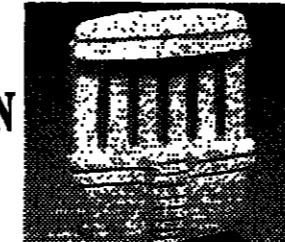
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Rage Rises in Iran Over Killings by Taliban

By Douglas Jehl
New York Times Service

TEHRAN — Early last month, as forces of the militant Taliban movement advanced in northern Afghanistan, representatives of the Iranian Foreign Ministry approached the Pakistani Embassy here and asked it to relay an urgent request.

The Iranians wanted to know whether the Taliban could guarantee that an Iranian consulate in the northern Afghan town of Mazar-i-Sharif would be safe if its forces succeeded in capturing the town, which was the headquarters of an Iranian-backed opposition alliance?

The reply from the Taliban was "yes," according to Pakistan's ambassador to Tehran, Javed Hussain. But by the time the ambassador could pass on that assurance, on

Aug. 8, the promise had proved empty.

Mazar-i-Sharif had been overrun, the consulate captured and 11 Iranian diplomats had disappeared.

After a month of mounting tension, a Taliban acknowledgement

Thursday that the diplomats had been killed by Taliban fighters ignited furious Iranian allegations of betrayal, punctuated by an official declaration that Iran would some-

how strike back.

"You will see how we will react," the former Iranian president, Hashemi Rafsanjani, vowed in an address before an enormous crowd attending Friday prayers at Tehran University.

Mr. Rafsanjani, who still holds a powerful post, said he had a message for the slain diplomats' families: "I promise them that we will take revenge for the blood of their

dear ones." One obvious possibility would be military retaliation of some kind against the Taliban, the purist Islamic movement that now controls most of Afghanistan. Already, in the fury caused by the diplomats' disappearance, Iran has built up a substantial military force of 70,000 troops along the Afghan border.

To many Iranians, what happened to the diplomats in Mazar-i-Sharif is being seen as final proof that the Taliban — whose rise to power has been a source of alarm to Iran — cannot be trusted.

Mr. Rafsanjani described the Taliban as part of "a very deep conspiracy to occupy Iran at its eastern borders."

But Mr. Rafsanjani declared that Iran would not take rash action. This suggested that, rather than launch

any kind of all-out invasion into the

historical quagmire of Afghanistan, Iran might well wait to gauge how others respond to what it has labeled "a shocking and horrifying atrocity."

The United Nations Security Council promised Thursday night to open an "urgent investigation into these crimes."

After weeks in which Taliban officials denied knowledge of the diplomats' fate, the Taliban leader, Mullah Mohammed Omar, said on Thursday that bodies of nine of the Iranians had been found and that, "either intentionally or unintentionally," they had been killed by unidentified Taliban soldiers.

On Friday, Iranian officials added there was no hope the others had survived.

Mullah Omar, who reported his findings in a letter to the Security Council, said that the Taliban soldiers had acted on their own. Other officials have said that by the time Taliban commanders arrived at the Iranian Consulate on the day of the attack, none of the Iranian diplomats were to be found.

Iranian officials have presented a very different account. In broadcasts on state television they claimed that the Taliban commander himself ordered the attack on the consulate, and that it was carried out by a Taliban commander and 15 soldiers.

The Iranians have said that officials, who were on the phone with their counterparts in Mazar-i-Sharif, heard a hail of gunshots as the attack began. Taliban officials have not yet said anything about the remaining two Iranian diplomats, as well as an Iranian journalist who disappeared from the consulate, but Iranian officials said Friday they believed the three were still alive.

In seeking to win international sympathy for its diplomats, Iran may be hampered by its own unpredictable behavior.

The 1979 takeover of the U.S. Embassy in Tehran, carried out by Iranian students with tacit government approval, was history's clearest recent example of an assault on diplomatic sanctity.

Iran may well have to answer disconcerting charges about what its diplomats were doing in Mazar-i-Sharif. Although Iran has said its support to the anti-Taliban alliance based there was limited to logistics, independent experts in Tehran and diplomats say that Iran was in fact a crucial supplier of arms, and that its diplomats in Mazar-i-Sharif almost certainly played a facilitating role.

On the day Taliban forces captured Mazar-i-Sharif, others reportedly seized two Iranian aircraft with assault rifles, rocket launchers and ammunition at the airport.

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Israel on Alert After Killing 2 in Hamas

By Lee Hockstader
Washington Post Service

TAIBEH, West Bank — Israel declared a state of high alert on Friday after its troops burst into a remote West Bank farmhouse and killed two brothers regarded as masterminds of some of the worst recent terrorist attacks carried out by the militant Islamic group Hamas.

The brothers, Iyad and Adel Awadallah, were killed Thursday afternoon in a commando raid that had apparently caught them off guard. Although the brothers had a small cache of light weapons, Israeli officials said, they had no warning of the attack and were shot and killed before they could make a move.

On Friday, reporters saw blood spattered over the ceiling of the room where they had been killed. Leaders of Hamas, which has or-

ganized suicide bombings and other attacks against Israel in the past, vowed to avenge the slaying of the brothers.

Bracing for reprisals, Israel closed off all border crossings from the West Bank and the Gaza Strip into Israel proper. If the closure lasts through the weekend, it will keep tens of thousands of Palestinians from reaching their jobs in Israel.

The killings seemed likely to dampen the already faint prospects for success in the current American peace initiative led by Dennis Ross, the chief U.S. Middle East envoy, who is in Israel trying to break the 18-month impasse in the peace process.

The death of the brothers inflamed Palestinians in several West Bank towns and Gaza and led to clashes in which Israeli forces fired rubber-coated bullets at demonstrators chanting for revenge.

Vows of Vengeance

A Hamas political leader in Palestinian-ruled Gaza vowed to avenge the deaths of the brothers, Reuters reported Friday from Jerusalem.

"Israel shoulders the full responsibility for their killing and God willing it will pay a dear price," said Mahmoud Zahar, the political leader.

"Revenge will be very strong."

The death of the brothers dealt a further blow to Hamas's military wing, the Qassam Brigades, after the mysterious killing in March of its master bombmaker, Muhiyaddin Sharif. His body was found next to a car that had exploded, but the body also had bullet holes in it.

The Palestinian Authority had implicated the Awadallah brothers in the killing, alleging that it had been part of an internal power struggle.

The two planes came within a few kilometers of each other as they flew in opposite directions shortly after noon. Radar devices on both jetliners that are designed to detect oncoming aircraft warned both pilots in time to take evasive action.

"There was no danger for the 150 passengers," the Swissair spokesman said, adding that his company's jet had been flying at the altitude assigned to it by air traffic controllers. It was not known how many passengers were on the KLM plane.

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The two planes

INTERNATIONAL
Herald Tribune
BUSINESS/FINANCE

SATURDAY-SUNDAY, SEPTEMBER 12-13, 1998

PAGE 11

European Markets Rattled by Turmoil

But Region's Economy Seems in Good Shape

By Tom Buerkle
International Herald Tribune

LONDON — The uncertainty over President Bill Clinton's future and the continued financial turmoil in developing countries rattled stock markets in Europe on Friday, but Europe's underlying economy is in better shape than most others to ride out the storm, analysts said.

European growth is increasingly driven by domestic factors such as rising employment and consumer spending, a fact that leaves the region less vulnerable to the weakness spreading from Asia and Russia into Latin American economies, analysts said.

Investors seeking shelter from the financial turbulence continued to flock into European bonds, meanwhile, supporting European currencies against the dollar and driving interest rates down to record low levels.

The yield on Germany's benchmark 10-year government bonds fell slightly to 3.99 percent on Friday, the first time it had ever fallen below 4 percent and down nearly one-quarter point for the week.

Those low rates should help sustain growth by making it easier for companies and consumers to borrow.

"If you're looking for an oasis in the storm, the Euro area is it," said Kim Schoenholz, chief economist at Salomon Smith Barney.

The dollar recovered somewhat to close at 1.6943 Deutsche marks in New York, after finishing at 1.6840 DM on Thursday. The dollar has fallen more than

10 percent in the last two weeks, though, and most analysts believe it will continue to weaken because of U.S. political uncertainty and the risk that financial turmoil in Latin America will hit U.S. corporate profits and growth.

European stock markets settled down on Friday, reassured for the moment by a firmer opening on Wall Street after the 3 percent plunge Thursday. The FTSE index of 100 U.K. stocks closed 18 points lower at 5,118.60 after trading at one point below 5,000. The CAC-40 index of French stocks slipped by 0.31 percent, to 3,578.34, and Germany's DAX index fell 0.21 percent, to 4,737.15.

Madrid's IBEX index fell 2.23 percent, though, reflecting the heavy exposure of Spanish companies to Latin America, while Milan's main index fell 2.60 percent.

To be sure, Europe will suffer from the continued deterioration of the global economy as weakness in developing economies reduces European exports and generates tougher competition in the form of cheaper imports from Asia and elsewhere.

But Europe trades less with Latin America than the United States does, so its economy should suffer less from turmoil in places like Brazil, which raised interest rates by 20 percent on Thursday to stop a flight of capital out of the country.

The European economy is also less sensitive to swings in the stock market than the United States is, because Europeans own fewer shares. Stock market gains amounted to about 35 percent of



A saleswoman in a store near Moscow surveying shelves Friday picked clean during recent days of panic buying.

personal disposable income in the United States in 1997, compared with 15 percent in Britain, 6 percent in Germany and less than 4 percent in France, according to the Organization for Economic Cooperation and Development.

François Chauvet, a strategist at the Paris brokerage Chevreux de Virion, has downgraded his forecast for growth in the 11 countries in the Euro zone to about 2.25 percent next year from 2.9 percent previously. But the firm has slashed its U.S. growth forecast even further, to 1.4 percent from 2.5 percent.

"The fundamentals of the domestic economy in the U.S.A. and Europe are better than ever," Mr. Chauvet said. But he added that U.S. growth would suffer a bigger slowdown through a deterioration of trade.

The government on Thursday reported the U.S. current account deficit widened to a record \$56 billion in the second quarter of this year.

European markets will remain very nervous, and the European economy will suffer if the financial turmoil wreaks enough havoc to trigger a global

recession. But most analysts regard the dollar as the biggest point of vulnerability.

"The Clinton news has had a big impact on the dollar," said Hans-Peter Haasheuer, a senior economist at Warburg Dillon Read in Zurich.

"There are fears in the market that because of this issue," he said.

"The U.S. could be occupied with internal problems and no longer able to act in the worldwide situation as they should. This is a rather dangerous situation."

Duisenberg Warns of Asia Fallout

But Head of Euro Bank Advises: Do Not Panic'

By John Schmid
International Herald Tribune

FRANKFURT — The president of the European Central Bank warned Friday that Europe was at risk from the economic turmoil in Asia and Russia.

"There is no doubt that these developments will have a dampening effect on the world economy," Wim Duisenberg said.

"We are perfectly aware that the risks associated with current global developments go beyond those effects which we can measure directly," he said. "We have to take these risks seriously and analyze the situation soberly, but we should also not dramatize."

After recent pronouncements from the U.S. Federal Reserve and the Bank of England, Mr. Duisenberg became the latest major central banker in the past week to warn that the biggest Western economies are vulnerable to the global financial turmoil.

The comments coincide with fears that the global economy is cooling so rapidly that central bankers might undertake "an internationally coordinated interest rate cut," said Joachim Fels, London-based economist at Morgan Stanley Dean Witter.

Betting on a round of tandem lending rate cuts picked up pace after the Bank of Japan lowered one of its interest rates Thursday in what some called an emergency measure for the Japanese economy, which has slid into a deeper-than-expected recession.

In unusually blunt terms for a central banker, Mr. Duisenberg said the global environment "has clearly worsened" and made monetary policy "more uncertain." The dollar, which has tumbled in the two weeks since Russia's economic and political crisis rattled markets, could also become a problem for Europe, Mr. Duisenberg said. A weaker dollar puts European exports at a disadvantage by making them more expensive in any of the nations whose currencies are pegged to the U.S. currency.

"The dollar has fallen quite sharply over the past two weeks," Mr. Duisenberg said. "If this continues, that would be a reason for worry."

Like the Fed and Bank of England, Mr. Duisenberg took pains to soothe nerves and avoid stoking any fears that would upset the delicate international order of financial markets and economies.

"Our advice, in short, is: Do not panic," Mr. Duisenberg said.

By assuring that he is "not concerned at all" about European inflation, Mr. Duisenberg contributed to the view that Europe will keep interest rates low and play its role in stoking economic activity, economists said.

Another coordinated effort to preserve the shaky status quo could come Monday with the meeting of finance officials from the Group of Seven major industrial economies in London.

It is not certain that Asian and Russian problems will land on Europe's shores, Mr. Duisenberg said. European growth currently is bolstered by low inflation, low interest rates and consumer spending.

Last week, the Fed chairman, Alan Greenspan, warned that the U.S. could not remain "an oasis of prosperity unaffected by a world that is experiencing greatly increased stress."

WALL STREET WATCH

Violent Market Surges: A Crapshoot?

By Gretchen Morgenson
New York Times Service

NEW YORK — Investors in the stock market have been ready for ups and downs.

Everybody knows that. But who was prepared for the market's manic depressive mood's swings of the past few weeks? And what do the increasingly violent moves in stocks mean for the market overall?

Investors who thought that Tuesday's stunning surge marked the end of the market's late-summer troubles quickly learned otherwise when the Dow Jones industrial average fell 15.76 points Wednesday.

On Thursday, the market continued to cave, with the Dow falling 249.48 points, or 3.17 percent, to close at 7,615.54.

In those two days' trading, investors have given up more than they made during the record point rise on Tuesday.

Then on Friday, the Dow climbed 2.4 percent to 7,795.50.

These are wide swings. But they are not as wide as the gaps in recent weeks between the high and the low each day in the market averages. In two out of three trading days this week, the Dow Jones' industrial average traded in a range that exceeded 300 points.

Thursday's range of 338.57 points amounted to 4.3 percent of the index's value. And the swings in markets overseas have been even greater.

Moodiness like this used to be an occasional thing in American stocks. Now, going from euphoria to depression seems to be de rigueur.

Trouble is, these market gyrations have consequences: they are highly distressing to investors' psyches and exceedingly costly to their portfolios. Extreme volatility in share prices, which investors have been experiencing since stocks peaked in July, makes the market feel like a crapshoot.

Other brokers advise investors to simply sit out the rough and tumble in points to register a meaningful per-

A Time of Turmoil

Volatility has been one thing traders can count on in the market this summer. The daily range of trading prices of S&P 500 futures, one measure of market swings, has risen drastically since July 23.

30-day moving average
of difference
between
high and low prices
on S&P 500 futures



Source: Scanshot

centage gain or loss. Nobody expects the stock market at these levels to move up or down a mere 25 points or so.

But percentage moves of 4 percent or more that have whipsawed investors recently makes the market seem more unstable, less rock solid. And these moves are not limited to the indexes. Consider what happened Thursday to the stock of Merrill Lynch & Co. Thursday's trading in that stock had a range of 7.8 percent, from a high of \$55.875 to a low of \$51.50. It closed at \$55.76.

This is not an isolated example, nor was the volatility the result of a hot news announcement.

Brokers are mixed on what investors should do to protect themselves from the high costs of trading in volatile markets. Some advise investors looking to get into stocks to use only limit orders, which specify a price the investor is willing to pay for the shares.

Market orders, in which an investor pays the prevailing market price on his order, are more common and often cheaper to execute. But in times of volatility market orders can be a good way to pay up to buy stocks.

Other brokers advise investors to simply sit out the rough and tumble

trading days. These people say that on those occasions, the market is simply trying to find a level, that all the churning in stocks makes it impossible to buy with confidence.

Besides individual stocks, major indexes trade in exceedingly wide ranges these days too.

In just the past month, almost one trading day in three involved an unusually wide trading range, according to Fane Lozman, chairman of Scanshift, a creator of market display software in Chicago.

In the 23 trading days going back to Aug. 10, Mr. Lozman studied the intraday range for the Standard & Poor's 500 September futures contracts, the vehicle institutional investors used to buy or sell the overall market.

He found that on seven occasions the range for the futures during a day's trading was one-and-one-half times greater than the mean range had been during the previous thirty days.

On three occasions, the range was twice as great as it had been previously.

"We are in a new market era of volatility that people have to get used to," Mr. Lozman said. "The average person likes to see a nice steady increase in stock prices."

But the speed with which this market goes from one price level to another price level is incredible."

It is also expensive, at least for individual investors. Professional traders like wide swings in stocks because on the large blocks of shares that they trade, they can make big money on even the tiniest move.

But for smaller investors, volatility makes getting in and out of stocks a very costly proposition.

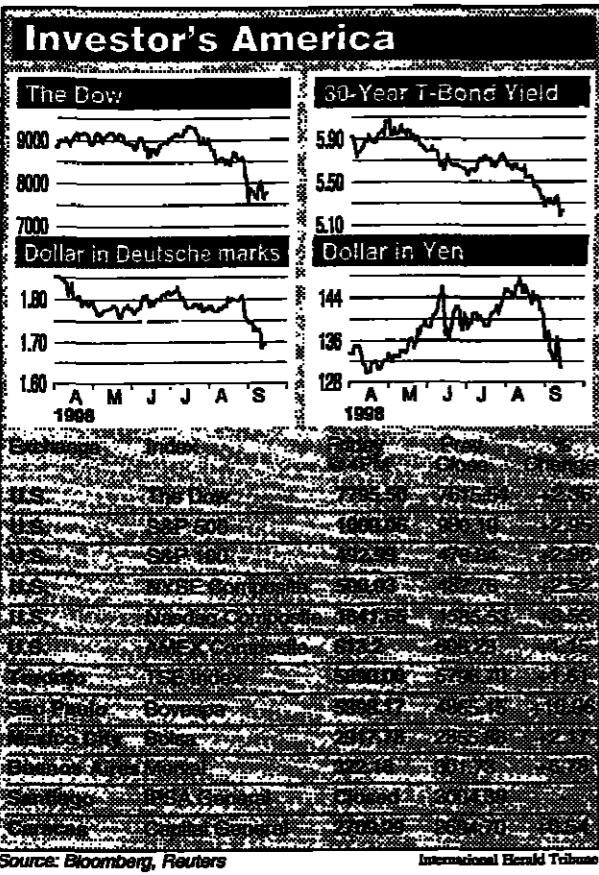
Think of the person who sold Citicorp Thursday at its low of \$83.50, only to see it close at \$88.25.

Or the investor who bought Exxon at \$70.6875, only to see it close one point lower.

CURRENCY & INTEREST RATES

September 11									
Libid-Libor Rates					Statis				
Country	1	3	6	12	1	3	6	12	1
U.S.	4.825	4.845	4.874	4.905	4.825	4.845	4.874	4.905	4.825
U.K.	4.91	5.015	5.125	5.185	4.91	5.015	5.125	5.185	4.91
Frankfurt	4.95	5.05	5.18	5.25	4.95	5.05	5.18	5.25	4.95
London (0)	4.95	5.05	5.18	5.25	4.95	5.05	5.18	5.25	4.95
London (1)	4.95	5.05	5.18	5.25	4.95	5.05	5.18	5.25	4.95
Madrid	5.025	5.125	5.25	5.325	5.025	5.125	5.25	5.325	5.025
Milan	5.025	5.125	5.25	5.325	5.025	5.125	5.25	5.325	5.025
New York (0)	5.025	5.125	5.25	5.325	5.025	5.125	5.25	5.325	5.025
New York (1)	5.025	5.125	5.25	5.325	5.025	5.125	5.25	5.325	5.025
Tokyo	5.125	5.225	5.35	5.425	5.125	5.225	5.35	5.425	5.125
Toronto	5.125	5.225	5.35	5.425	5.125	5.225	5.35	5.425	5.125
Zurich	5.125	5.225	5.35	5.425	5.125	5.225	5.35	5.425	5.125
ECB	5.125	5.225	5.35	5.425	5.125	5.225	5.35	5.425	5.125
London (2)	5.125	5.225	5.35	5.425	5.125	5.225	5.35	5.425	5.125
London (3)	5.125	5.225	5.35	5.4					

THE AMERICAS



AmEx and Intel Help Stocks Move Higher

Compiled by Our Staff From Dispatches

NEW YORK — U.S. stocks rose for the first time in three days Friday as upbeat forecasts from Intel and American Express offered investors some rare good news.

The brightest spot on Wall Street was in the technology sector, with stocks surging on positive earnings news from Oracle, as well as Intel.

The Dow Jones industrial average rose 179.96 points, or 2.4 percent, at 7,795.50. Advancing issues outnumbered declining ones on the New York Stock Exchange by a 4-

to-3 margin. The rise put the Dow into positive territory for the week, with a gain of 2 percent.

Broad-market indicators were also higher, especially the technol-

U.S. STOCKS

ogy-heavy Nasdaq composite index, which rose 56.34 points, or 3.5 percent, at 1,641.67. The Standard & Poor's 500-stock index rose 28.80 points to 1,008.99.

Andrew Abrams, a money manager at CWH Associates, said the

Dow was under pressure early amid speculation that President Bill Clinton would resign. "When he didn't say he was going to resign it took the pressure off," Mr. Abrams said.

A Labor Department report of a sharper-than-expected drop in U.S. wholesale prices last month raised expectations that the Federal Reserve's next move would be to reduce short-term interest rates to help offset the fallout from the global economic crisis.

Technology stocks got a lift from encouraging earnings statements

from Intel and Oracle. Intel said late Thursday it would report unexpectedly high third-quarter sales due to strong demand from computer makers in the United States and Europe. Oracle, the largest maker of corporate database software, reported stronger-than-expected profits for the quarter ended last month.

American Express shares rose after the company said the impact from slowing economies in emerging markets had been "relatively modest," and that its long-term target for earnings growth was still 12 to 15 percent a year.

U.S. bonds fell for the first time in three days as stocks rose, dimming the allure of Treasury securities as refuge, and as investors balked at the lowest yields in three decades.

The price of the benchmark 30-year Treasury bond fell 13/32 to 104 2/32, pushing its yield up to 5.23 percent from 5.18 percent.

Statistics on inflation show that slowing growth and weak currencies around the world are pushing prices down in the United States, putting pressure on profits. The producer price index dropped 0.4 percent in August, the core rate, excluding food and energy, fell 0.1 percent.

"Economic growth is slowing

down, and earnings growth will be

fairly low," said Robert Natale of Bear Stearns Asset Management.

"If that's the case, it will be difficult

for stocks to make progress."

Stocks could rebound if the Federal Reserve cuts interest rates, he said.

(Bloomberg, AP)

Dollar Dives Against Yen As Starr Report Unfolds

Bloomberg News

NEW YORK — The dollar tumbled against the yen Friday on concern that a report by the independent counsel, Kenneth Starr, may prompt Congress to try to impeach President Bill Clinton.

Traders also sold the dollar amid speculation that the Federal Reserve may cut interest rates and on talk that the U.S. Treasury may be softening its long-standing support for a strong dollar.

"There's talk the Fed is going to cut rates soon and the continuing Clinton situation is weighing on the dollar," said Hugh Walsh, a trader at Commerzbank. "There's also a belief the U.S. has changed its strong dollar policy. From a world perspective, the dollar's losing its safe-haven luster."

At 4 P.M. in New York, the dollar fell to 130.675 yen from 134.400 Thursday. The dollar rose to 1.6943 Deutsche marks from 1.6840 DM, on the financial and political malaise in Russia.

Against other major currencies, the dollar climbed to 5.6790 French francs from 5.6480. It rose to 1.3905 Swiss francs from 1.3840. The pound declined to \$1.6728 from \$1.6903.

The dollar's gains were tempered by concern that the United States

may be wavering in its support for the dollar's strength. Treasury Secretary Robert Rubin said in an interview to be published in the Sept. 28 issue of Fortune magazine that a strong year would be good for Asia.

Still, Mr. Rubin last week reiterated in San Francisco his oft-stated remark that a strong dollar is in the U.S. economic interest, adding that there has been no change in that stance.

The interpretation is that Rubin's changing his policy, but this is not a departure," Keith Woodfin, an analyst at Foreign Exchange Analytics in Essex, Connecticut, said of the article.

U.S. Acts to Stop Chinese Beetles

New York Times Service

BEIJING — The U.S. government announced Friday that it would ban the import of all Chinese goods shipped in raw wood packing material in an effort to halt the invasion of a devastating tree-eating insect. The move could strain the Chinese economy and Beijing's relations with Washington.

Officials said that the crates and pallets bringing Chinese goods to North America sometimes harbor the voracious Asian longhorn beetle, which has emerged from packing material in U.S. warehouses to kill trees in five locations around New York and Chicago in the past year.

The ban, to take effect in 90 days, will probably affect from one third to one half of China's \$62 billion export trade to the United States — at a time when Beijing has already seen its hurtling export growth slowed by weak currencies in Japan, South Korea and other Asian countries.

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Very briefly:

• Microsoft Corp. has called the U.S. government's antitrust lawsuit against it "half-baked" and has asked a federal judge to throw out the case. Microsoft said it had not acted illegally to limit competition.

• Colombia's industrial production rose 6.76 percent in the first six months of the year compared with the year-earlier period, its strongest performance for six years, according to Colombia's National Statistics Department.

• Twelve of the largest U.S. steel companies will file unfair-trade complaints with the Commerce Department against foreign companies, in a drive to limit imports they say are threatening jobs and profits.

• Pratt & Whitney, a unit of United Technologies Corp., one of the world's three largest aircraft engine makers, is to cut 1,000 hourly jobs in Connecticut amid order delays from Boeing Co. and Airbus Industrie.

• The Learning Co., an educational software company, is to cut about 500 jobs and consolidate certain facilities as it integrates its purchase of Broderbund Software Inc., the maker of software under the Myst and Carmen Sandiego brands.

AP, Bloomberg, Reuters

The Trib Index						
	Level	Change	% change	year to date	% change	Price as of 4:00 P.M. New York time.
World Index	171.10	+ 0.98	+ 0.58	— 0.59		
Regional Indexes						
Asia/Pacific	72.53	— 1.12	— 1.52	— 24.50		
Europe	205.25	— 2.18	— 1.05	+ 6.33		
N. America	232.51	+ 6.53	+ 2.88	+ 7.65		
S. America	71.74	+ 4.99	+ 7.48	+ 53.01		
Industrial indexes						
Capital goods	236.15	+ 6.49	+ 2.83	+ 14.32		
Consumer goods	211.38	+ 0.41	+ 0.19	+ 0.78		
Energy	190.03	+ 5.52	+ 2.99	+ 2.53		
Finance	111.30	— 2.24	— 1.97	— 9.48		
Miscellaneous	140.42	— 0.25	— 0.18	— 6.31		
Raw Materials	160.77	+ 1.46	+ 0.92	+ 3.87		
Service	185.25	+ 1.11	+ 0.80	+ 6.28		
Utilities	156.93	+ 3.67	+ 2.53	+ 5.98		

The International Herald Tribune World Stock Index © tracks the U.S. dollar value of 260 Internationally investable stocks from 25 countries.

Compiled by Bloomberg News.

to the U.S. Federal Reserve, U.S. banks had more than \$19 billion in loans and other claims in the country at the end of March, the last month for which figures are available. In the first half of this year, U.S. companies exported more than \$7 billion worth of goods and services to Brazil.

If the Brazilian economy falters, the demand for U.S. exports would shrink and some borrowers probably would be unable to repay their loans on time.

The exposure of large U.S. banks

in the region — they had more than \$10 billion on the line in Argentina in March — is one reason the price of their stocks have plunged by 30 percent to 50 percent in recent weeks, analysts said. For the Brazilians, dealing with the crisis is greatly complicated by the fact that President Fernando Henrique Cardoso faces the voters in a re-election bid Oct. 4. His government is attempting to avoid a devaluation, or perhaps some type of currency controls, until after the election, when other policy changes such as large spending cuts could be proposed instead.

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EUROPE

EU Rules on Mergers Speed Up Cumbersome Process

Bloomberg News

BRUSSELS — When Akzo Nobel NV said in April it would buy Courtaulds PLC to become the world's biggest paint maker, the European Union threatened to block the acquisition, charging it would give Akzo 80 percent of the European market for aircraft paints.

Until recently, the objections by the EU antitrust chief, Karel van Miert, would have meant five cumbersome months of scrutiny for the \$3.8 billion acquisition. But Akzo got the go-ahead in just six weeks after paring the scope of the venture under a new rule that has created a fast track to EU merger approval.

As mergers and acquisitions proliferate — companies had unveiled mergers worth a record \$1.73 billion by August this year — the EU has moved to shorten the process by letting companies modify potentially market-dominating ventures as soon as regulators cry foul.

The fast-track rule "was an advantage, because both companies wanted to get on with the deal," said Derek Welch, Courtaulds' business development director. "When you're looking at a merger or takeover of that size, it's important that you get the thing moving as quickly as possible to remove uncertainty amongst everybody: your

employees, customers, suppliers and your shareholders."

Before the rule was introduced in March, if regulators identified antitrust problems during their initial one-month review of a merger, they had to launch an "in-depth" probe lasting up to four more months.

U.S. companies such as WorldCom Inc. and Boeing Co. have faced drawn-out EU investigations of their mega-mergers. Those full-blown probes, though still an option, are becoming a rarity. Before the new rules took effect, about 1 in 10 merger cases faced a full-scale review. Since then, just 2 in about 140 cases filed with the commission have faced full probes, the com-

mission said. So far, six mergers and acquisitions have won fast-track EU approval after companies offered early concessions. Akzo, Allianz AG, Thyssen AG and Exxon Corp. have been among the companies to benefit.

Allianz in May won EU clearance for its purchase of Assurances Generales de France SA, making it Europe's biggest insurer, after pledging to sell shares in one of its units. The German steelmakers Thyssen and Fried. Krupp AG Hoesch-Krupp in June got approval for their merger after Krupp agreed to give up its seat on the board of the Finnish escalator maker Kone Oy.

Demand for Oil Keeps Shrinking

Bloomberg News

PARIS — The International Energy Agency cut its forecast for 1998 oil demand for the fourth consecutive month, reflecting slowing economic growth in China and the countries that make up the former Soviet Union.

In its latest monthly report, the Paris-based agency cut 200,000 barrels of oil a day from its previous demand estimate and now predicts 1998 consumption of 74.5 million barrels a day.

World oil demand is expected to rise just 0.9 percent this year, compared with 1997 growth of 2.8 percent, the agency said.

The figures painted a pessimistic picture for oil prices, which fell to their lowest level in a decade in August, amid declining demand in Asia. The International Energy Agency said that oil inventories remain near record levels and that the Organization of Petroleum Exporting Countries has not fully adhered to its promises to reduce supply.

Oil markets shrugged off the report. Benchmark Brent crude rose 24 cents a barrel, to \$33.51, on concern that Iran could skirmish with the Taliban militia in Afghanistan and threaten world oil supply in the process.

JAPAN: Stark and Dark Signs for the Recession Economy

Continued from Page 1

omy and by the decline on Wall Street and in Brazil on a doozy of Thursday. Stocks now stand at about where they did a dozen years ago.

The bond markets rallied, sending the yield on the benchmark 10-year Japanese government bond to a record low of 0.78 percent, just after having set a record Thursday. Japanese long-term bond yields are already the lowest long-term interest rates of any country in history.

In contrast, the yen strengthened, as investors sold the dollar over concerns about possible impeachment proceedings against President Bill Clinton. The yen was trading in New York at 130.75 against the dollar, from 134.40 at the close Thursday.

Friday, the main opposition party pulled out of talks on the debt crisis, saying that it would not resume talks unless the government abandoned its plan to use taxpayers' money to bail out the Long-Term Credit Bank, one of the nation's largest and weakest institutions.

In an attempt to ease credit, the Bank of Japan, the nation's central bank, said Wednesday it would guide down to 0.25 percent the overnight interest rate.

"Japan is skirting the edge of a deflationary spiral," said Mr. Sakaiya, head of the Economic Planning Agency.

The economic data Friday showed that domestic demand was weak, with consumer spending falling significantly, along with corporate investment. Deflation is spreading, with prices, profits and workers' pay all dropping. Companies are cutting back on production, investment spending and hiring, which in turn could lead consumption to fall further. This raises the risk that Japan descends into a deflationary spiral that will increasingly constrict demand at home.

Some economists cautioned, however, that even if Japan dipped into a deflationary spiral, it did not necessarily mean that Japan was doomed to an economic abyss.

"When we talk about a deflationary spiral, the sense is that once it's started, we're finished, stuck into a vortex and there's no way out," said Christopher Calderwood, chief economist at Jardine Fleming Securities (Asia) Ltd. "If we are there now, I don't think the economy will

consume itself over the next two years."

Mr. Sakaiya said that he expected economic performance in the third quarter also to be weak and that a recovery might not come for another two years. The government is now carrying out a giant fiscal stimulus package worth 16.7 trillion yen, and that money was to have started trickling through the economy last month. Mr. Sakaiya acknowledged, however, that the effects of the spending would not be felt until the fall. Some economists say it will be difficult to spend so much money so quickly, and others question whether all the money will actually be made available for spending.

A consensus is building among economists that the spending in 1998 is just barely above spending levels in 1997, when the economy was still growing, and not nearly enough to lift Japan out of a recession.

"The implication for the market is that the Japanese economy still hasn't bottomed out, fiscal policy is not working and Japan is on the road to fiscal ruin," said Andrew Shapley, an economist at Schroders Japan Ltd. "The economy is imploding. It's shrinking."

More surprising for some economists is that the data released Friday show that the core of the economy is weak. The amounts of money that Japanese consumers spent on food, clothes, and new homes, and the investment that companies put into new plant and equipment declined in the second quarter by about 7 percent, according to Jeffrey Young, an economist at Salomon Brothers in Tokyo.

Although gross domestic product, or GDP, did not decline that much as much as it did in the first quarter, when the economy contracted by an annual 5.3 percent, the make-up of the economy troubles some economists.

"The emphatic point that I think the markets are going to have to deal with is that people know the economy is bad, but they simply have not come to grips with how bad," Mr. Young said. Separately, the central bank noted in a key monthly report issued Friday that the stock market was being unstable since August, when Russia's economic crisis riled the global markets. That instability, it warned, drag down economic output even more.

"The real economic situation is worse than the figures might suggest," said Teizo Taya, a managing director and economist at Daiwa Institute of Research.

Heineken Net Climbs 28%

Compiled by Staff Writers

AMSTERDAM — Heineken NV, the world's second-largest brewer, said Friday its first-half net rose 28 percent, bolstered by the dollar's strength and by acquisitions.

Profit for the six months ended June 30 rose to 418 million guilders (\$21.8 million) from 326 million guilders in the year-earlier period. Heineken, second in size only to Anheuser-Busch Cos. of the United States, said sales rose 5 percent to 6.84 billion guilders.

Today's profit figure was certainly above most forecasts, and they say they will keep the growth for the whole year," a dealer said.

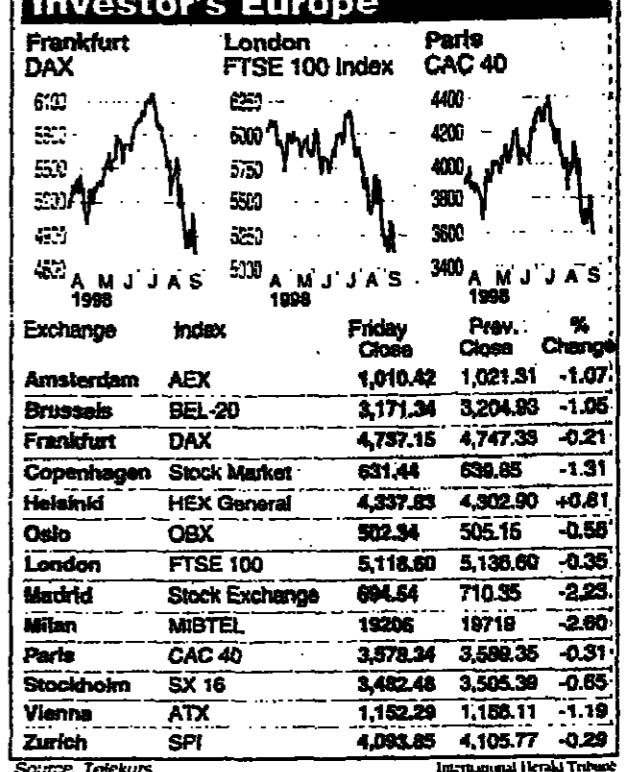
The higher dollar is rewarding to them," said Dick de Haan, an analyst at Gestión NV in Amsterdam. "The U.S. is important to Heineken as it's the No. 1 imported beer."

Heineken traced the improvement in its first-half performance to higher sales prices, a better product mix and strict cost control.

The consolidation of a Polish brewer, Zywiec SA, is expected to make a positive contribution over the full year. The company is finally bearing the fruits of its 1996 acquisitions of two brewers, Birra Moretti SpA of Italy and Fischer Group of France.

(Bloomberg, Reuters)

Investor's Europe



Source: Teletext

Instrumental Herald Tribune

Very briefly:

• Ukraine called on foreign investors to exchange Treasury bills for new two-year bonds that promise a dollar-linked yield of 22 percent, less than a third of the country's current Eurobond yields.

• The World Bank approved a \$369 million loan to Turkey to aid in the cleanup from floods and earthquakes.

• Telefónica SA, Spain's largest telephone company, and Canal Plus SA, Europe's No. 1 pay-TV company, presented the planned merger of their Spanish satellite-TV units to European Union regulators, the first step toward securing EU approval of the plan.

• Diageo PLC, the world's largest liquor company, will no longer distribute Highland Distillers PLC's Famous Grouse whisky in the United States and Ireland. Highland's whisky will instead be distributed by Rémy Cointreau SA as part of a new alliance between the Scottish and French companies.

• ING Groep NV, the largest Dutch financial-services company, reached agreement to buy Clarion Partners LLC of the United States, becoming the world's third-largest real estate asset manager. No financial details were given.

• Havas SA, France's largest media company, agreed to buy 100 percent of Spain's second-biggest publisher, Grupo Asa SA, for an undisclosed sum as part of a strategy to expand in global reach.

• Spanish consumer prices rose 0.3 percent in August from July, a decline from last month's 10-month high of 0.4 percent, as rising prices during the tourism industry's peak month pushed the index higher. The monthly increase lifted the annual increase to 2.1 percent, in line with expectations.

• Parallel Pictures Group PLC, a British film company, is in talks to buy Handmade Films Ltd., a British company founded by the former Beadle George Harrison, from Canada's troubled Paragon Entertainment Corp. Bloomberg

WORLD STOCK MARKETS

Friday, Sept. 11

Daily prices in local currencies.

Telekurs

High Low Close Prev.

Amsterdam AEX Index: 1618.62

Previous: 1617.21

High Low Close Prev.

Frankfurt DAX: 672.15

Previous: 672.23

High Low Close Prev.

Johannesburg All Market: 489.42

Previous: 488.71

High Low Close Prev.

Montreal Industrials: 220.41

Previous: 220.33

High Low Close Prev.

Seoul Composite: 220.41

Previous: 220.41

High Low Close Prev.

Tokyo Nikkei: 11,255.70

Previous: 11,255.70

High Low Close Prev.

Oslo OSE: 2,023.24

Previous: 2,022.34

High Low Close Prev.

Singapore Straits Times: 551.19

Previous: 551.19

High Low Close Prev.

Toronto TSE Industrials: 5784.77

Previous: 5784.77

High Low Close Prev.

Paris CAC 40: 3,400.00

Previous: 3,399.00

High Low Close Prev.

Milan MIB: 1,040.00

Previous: 1,039.00

High Low Close Prev.

London FTSE 100: 4,400.00

Previous: 4,399.00

High Low Close Prev.

Paris CAC 40: 3,400.00

Previous: 3,399.00

High Low Close Prev.

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Previous: 3,399.00

NASDAQ

Friday's 4 P.M.
10 most traded National Market securities
in terms of dollar value, updated twice a year.
The Associated Press

**The 1,000 most traded National Market securities
in terms of dollar value, updated twice a year.**

The Associated Press

NYSE

Friday's 4 P.M. Close (Continued)

12 Month High Low	Stock	Div	Yld	PE	52 Wk High	Low	Last
2001 2000 Net Income	162.24 89.99	10					

Financial Jingle

funds Reassess

Lord Pulls Out of Asia Meeting

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ASIA/PACIFIC

Financial Jingoism Sweeps Hong KongBy Tan Ee Lyn
Reuters

HONG KONG — The Hong Kong government's crusade against market speculators has become a rallying cry, fueling a sense of nationalism once rare in this former British colony, political analysts and legislators said Friday.

But some warned that such jingoism would harm the image of this international financial powerhouse in the long run and drive investors away.

Government officials "are creating an impression for the general public in Hong Kong that there are speculators that are not so bad, manipulators who are really bad and these are essentially foreign devils," said Christine Loh, a member of the Hong Kong legislature.

"To divide market players into good ones and bad ones, and the bad ones are from the outside, is

just not what we need," said Mrs. Loh, head of the Citizens' Party and a former commodities trader. "I mean what impression are we creating internationally?"

Hong Kong has locked horns in recent weeks with what it has termed "market manipulators" who are trying to profit from attacking the Hong Kong dollar.

On Saturday, Financial Secretary Donald Tsang is to appear for the third time this week before the legislature's Financial Affairs panel to defend the government's actions.

Since mid-August, the Hong Kong Monetary Authority has spent at least 100 billion Hong Kong dollars (\$12.9 billion) in the local stock and futures markets to foil speculators.

The Monetary Authority accused speculators of selling the Hong Kong dollar to drive interest rates up and stock prices down in an effort to profit from short

selling: when investors borrow stocks, sell them, and buy replacements later to return to the lender at a promised date, hoping the market will go down so that they can pocket the difference.

In the past week, the government has announced 37 measures to strengthen the Hong Kong dollar's link to the U.S. dollar and make markets less susceptible to manipulation. The moves have been hotly debated by legislators in this week's earlier sessions with Mr. Tsang.

Many politicians have used the forum to unleash wild and colorful invectives against foreign "manipulators" — not unlike the rhetoric that Prime Minister Mahathir bin Mohamed of Malaysia has used for months to denounce currency speculators.

James Tien of the Liberal Party referred to them as "gweilos," a Cantonese term for "foreign devils," while Chan Kam-lam of the

pro-China Democratic Alliance of the Betterment of Hong Kong, called them "international big crocodiles."

Amid the name calling, Mr. Tsang, the top general in Hong Kong's market intervention campaign, has won growing support among the territory's 6.5 million people, surveys showed.

A poll by the University of Hong Kong on Sept. 7 found 54.9 percent of 548 respondents agreed with the government's recent intervention in stocks and futures, up from 37.4 percent in an earlier survey conducted on Sept. 1.

Lam Sim-kai, a political analyst, said the support was because of a groundswell of "anti-speculator sentiment." Margaret Ng, a legislator, said the support given to the government was based on "financial jingoism" and warned that it could encourage the government to do whatever it chose.

Mitsubishi Links Units To Sell Funds

Bloomberg News

TOKYO — Bank of Tokyo-Mitsubishi Ltd. and the three other financial giants of the Mitsubishi business group will form a joint venture to raise and market mutual funds, and they said Friday they would team up in investment banking as well.

The four companies — Bank of Tokyo-Mitsubishi, Mitsubishi Trust & Banking Corp., Tokio Marine & Fire Insurance Co. and Meiji Life Insurance Co. — said they would invest 480 million yen (\$3.5 million) and have equal shares in the venture, which will be established in December.

The companies also said they would work together, and possibly with foreign companies, to provide such support services as record-keeping for 401K-type products in Japan. The four will also cooperate in investment banking and might form a financial holding company, said the president of Bank of Tokyo-Mitsubishi, Satoru Kishi.

"We're capitalizing on our strengths and teaming up to take advantage of 'Big Bang' financial reforms," Mr. Kishi said. "A holding company is one important option we have."

The joint venture is the latest in a series of alliances aimed at cashing in on what is expected to be a mutual-fund bonanza, as financial deregulation lets the 720 trillion yen that Japanese savers have stashed in low-yielding bank accounts move to products that could produce higher returns.

It tightens the ties between Japan's largest commercial lender, its biggest trust bank, the largest casualty insurer and the fourth-largest life insurer, all members of the tight-knit Mitsubishi business group.

To become more competitive, Toshiba will trim its overall work force to below 60,000 by March 2000 from the current 66,000, partly through attrition, it said.

Toshiba will reduce its headquarters work force to 300 from 700. Directors' pay will be cut by up to 20 percent starting next month.

"I consider the company is in pretty bad shape," the company's president, Taiso Nishimura, told a news conference. (AP, Bloomberg)

Investor's Asia

	Hong Kong	Singapore	Tokyo
	Hong Kong	Straits Times	Nikkei 225
1998	10000	1700	16750
1997	15000	1300	16000
1996	10000	1100	14500
1995	8000	900	13750
1994	6000	700	13000
1993	5000	600	13000
1992	4000	500	13000
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1871	1000	200	13000
1870	1000	200	13000

Panels Scheduled For The Two-Day Conference Include:

- Strategic Options For Upstream: Lower Prices, Higher Costs
- The Price Outlook For 1999: Is There A Way Out Of Market Doldrums?
- LNG: The Supply Glut And The Commercialization Of The Business
- The Environment: Finding Market Solutions
- Using Intelligence For Business Decisions
- Global Adjustments In The Brave New World Of Weak Market Fundamentals
- The Middle East: The Challenge Of Reasserting A Pivotal Role In The Industry
- 2nd Petroleum Executive of the Year Award Presentation and Banquet

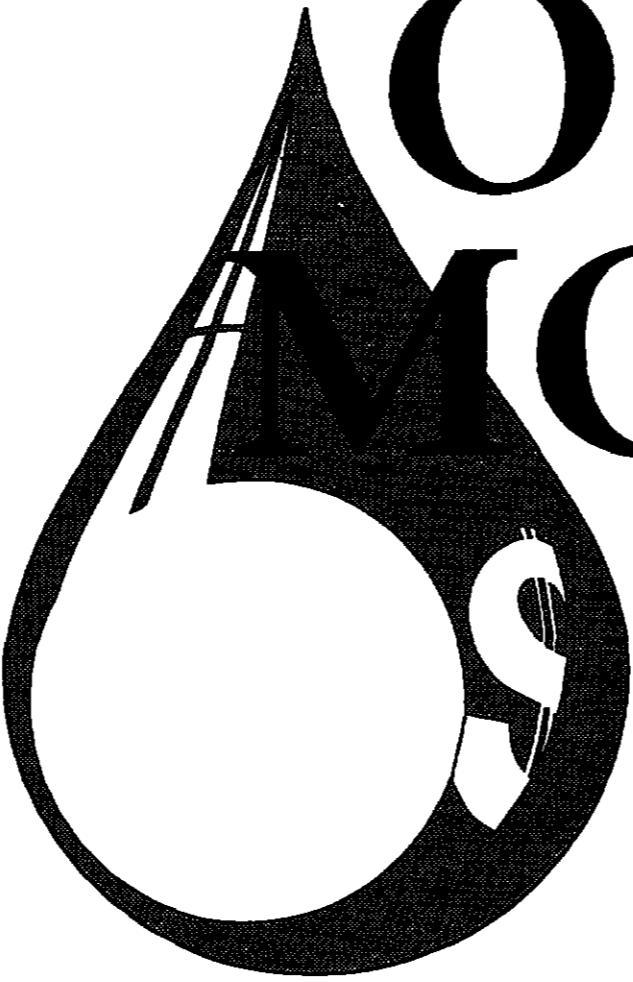
An Executive Conference
Hosted by



International Herald Tribune

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The 19th Annual OIL & MONEY CONFERENCE



November 17-18, 1998
Inter-Continental Hotel, London

THE BRAVE NEW WORLD OF MARKET FORCES: CRISES AND OPPORTUNITIES FOR INTERNATIONAL OIL AND GAS

This two-day executive conference will provide a platform for open debate — both among speakers and attendees — over issues of politics, geopolitics, and finance. Discussions by high-level company and government officials will focus on the Middle East, with a sectoral emphasis on emerging markets.

Confirmed Speakers Include:

- His Excellency Youssef Yousfi**, Minister of Industry and Energy, Algeria
- His Excellency Seyyid Mehdi Husseini**, Deputy Minister of Petroleum, Islamic Republic of Iran
- His Excellency Saud al-Nassir al-Sabah**, Minister of Petroleum, Kuwait
- Wayne Allen**, Chairman and CEO, Phillips Petroleum Co
- Euan Baird**, Chairman and CEO, Schlumberger
- Franco Bernabe**, Managing Director and CEO, ENI
- Pierre Jungels**, CEO, Enterprise Oil
- Adrian Lajous Vargas**, Director-General, Pemex
- Jean-François Rischard**, Vice President at the World Bank
- Hoesung Lee**, Advisor, Korea Energy Economics Institute
- Gordon Shearer**, President, Cabot LNG
- Tim Cottew**, Chairman and CEO, Osprey Maritime Ltd. (Singapore)
- Hiroshi Nemichi**, Chairman and Managing Director, Mitsubishi Corp
- Richard N. Cooper**, Harvard University professor and former US Undersecretary of State
- Anthony Finizza**, Chief Economist at Arco
- Lynton Jones**, President of the Intl. Petroleum Exchange
- Christophe de Margerie**, Senior Vice President of Total (Middle East)
- Sharif Ghalib**, Director, Sovereign Ratings Group, Standard & Poor's.

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Tel: (44 171) 836-4802 • Fax: (44 171) 836-0717

MONDAY
SPORTS
MONEYSATURDAY-SUNDAY,
SEPTEMBER 12-13, 1998
PAGE 17Website: www.ih.com/IHT/MONEYE-mail address: moneyrep@ih.com

Employment Heavyweights			
Number of employees, thousands	Sales/employee	Net income/employee	Assets/employee
Wal-Mart	\$142,980	\$4,270	\$55,010
General Motors	298,800	11,020	376,500
Siemens	154,011	3,446	141,296
Ford Motor Co.	422,180	19,020	766,980
Gazprom	64,328	17,970	300,243
Hitachi	194,440	76	N/A
Daimler-Benz	229,838	14,899	254,011
Sears Roebuck	139,510	4,010	130,740
Unilever	170,000	13,569	110,320
Columbia/HCA	81,820	1,330	95,660

Wal-Mart Stores

As the world's largest retailer, Wal-Mart Stores Inc. also boasts one of the largest employee populations: a staggering 825,000 at the end of last year in an expanding global empire of 3,400 stores.

Even more impressive is that Wal-Mart's sales per employee have grown to \$142,980 from \$127,550 four years ago, when the discount giant had a mere 528,000 workers.

"It's one of the most important measures of productivity, and Wal-Mart is simply one of the best in the industry," said Asma Usmani of Edward T. Jones, the St. Louis brokerage, who watches sales-per-employee trends as part of her valuations of retailers.



Ms. Usmani suggested a comparison with K-Mart Corp., the third-largest U.S. retailer after Wal-Mart and Sears, Roebuck & Co. After years of misguided diversification from its core discount business, K-Mart is selling specialty units that offered everything from books to auto parts, and closing more than 200 stores; it shed 46,000 employees in the past two years. Although trending upward, its \$123,330 in sales per employee is still well below Wal-Mart's.

Such numbers are by no means the only factor in an analysis. Most analysts look first at same-store sales, a comparison of revenue among sites that were open in all periods being studied.

Wal-Mart also comes in at the top in that category. It turned in one of the best same-store sales numbers for August, up 7.6 percent, leading the discounted category and trouncing the more-expensive department-store group.

What sets Wal-Mart apart, say its fans, is an extraordinary array of merchandise, ranging from groceries (it is the second-largest U.S. food retailer) to apparel and small appliances. Coupled with that are bargain prices and a service level not generally associated with dis-

counts.

Part of GM's problems date back to a

Fund Expenses Add Insult to Injury

AS STOCK PRICES have plummeted in recent weeks, so have the returns of mutual funds. But there is a difference: Funds add insult to injury by charging shareholders fees and expenses—often steep—in good times and bad.

Between Aug. 14 and Thursday's 249-point decline in the Dow, the average U.S. growth-stock fund went from having a positive return of 8 percent for 1998 to having a negative return of 3 percent, according to Lipper Analytical Services Inc.

Consider the typical fund that is down 3 percent right now. Roughly one-third of that loss comes from costs imposed by the fund.

That is a painful bite, especially compared with the recent past. In 1997, for instance, Gabelli Westwood Equity Fund returned 29.6 percent after expenses of 1.6 percent. So a \$40,000 account would have made \$11,840 in profits after the fund took \$640 in expenses. This year, the same fund has lost 3.8 percent. If it ends 1998 with that loss, then expenses for a \$40,000 account will be roughly same \$640, but a shareholder will be suffering a \$1,520 loss at the same time.

In a year your mutual fund is returning 30 percent, you are not likely to pay much attention to the fees it is charging you. But, in a year like this, with the average fund barely breaking even, expenses suddenly loom large. In fact, they are always important.

Consider two funds. Each produces a gross average annual return of 12 percent a year, but one has an expense ratio of 2 percent of assets; the other, 1 percent. So, in one case, the investor pockets 10 percent; in the other, 11 percent.

After 30 years, an investment of \$10,000 in the high-expense fund becomes \$174,000, but the same \$10,000 in the fund with an expense ratio of 1 percent becomes, thanks to the miracle of compounding \$229,000—or nearly one-third more.

But don't you get what you pay for? Aren't higher expenses worth it to fund investors, the way that higher legal fees are to clients? Studies say no.

JAMES K. GLASSMAN ON INVESTING

Notice that the difference in returns—2.4 percent—is much larger than the difference in fees alone, which averages 1 percent. So, not only are low-expense funds cheaper, but they are apparently better managed.

An analysis earlier this year by Financial Research Corp. examined the performance of U.S. mutual funds ranked with four or five stars by Morningstar. "On average," the study found, "stock funds that charge the lowest fees normally generate the highest returns over time."

For example, in the large-blend category (with portfolios that have both growth and value stocks, in roughly equal measure), the average return for funds in the quartile with the lowest expenses was 27.4 percent. The average return for funds in the quartile with the highest expenses was 24 percent.

The funds with the lowest expenses are funds that aren't managed by humans but instead hew to an index, which is a basket of stocks assembled to reflect the market or a segment of it. These funds have done very well in recent years. The largest is Vanguard Index 500 Portfolio, which tracks the S&P 500 Index, a proxy for the large-cap part of the market.

The expense ratio for Vanguard Index 500 last year was a mere 0.17 percent. But Vanguard has a low-expense policy even for its managed funds. Vanguard Growth and Income, ranked "1" by Morningstar, had an expense ratio of just 0.36 percent last year, or roughly one-fourth that of its peers, while returning 35.6 percent and whipping the S&P by more than two points. Vanguard Windsor II, another fund with a "1" rating, charged 0.37 percent last year and returned 32.4 percent.

Big Payrolls Are Not Big Problems; Growing Companies Need the Staff

IN THE LAST two decades, stock markets have rewarded, at least on a short-term basis, those companies that aggressively trim their staffs. Often resorting to euphemisms such as "downsizing" and "re-engineering," companies have sent tens of thousands of employees out into the job market as they seek to raise their productivity.

This tactic does not play well in the union halls, obviously, but for an investor, the question is whether big is always bad in terms of staffing. The answer, it seems is "not always."

To explore this topic, the Money Report looked at the 100 biggest publicly held employers around the world, as measured by Fortune magazine as part of its Global 500 issue.

The list comprised three automakers, two electronics companies, two American retailers, a dry-goods maker, a hospital chain and a natural gas concern. While some seem

obviously overstuffed, others seemed to need employees to grow. Additionally, employees can form a stable bloc of shareholders, a group that will not dump its stock at the first

sign of a bad quarter nor tender its shares to the first bidder that offers 10 percent above the market price. Many of these big companies encourage employee share ownership.

Research by Mercer Management Consulting has found that among the largest American companies, those that return the most value to shareholders are the ones that manage to raise revenues and profits faster than their competitors. By contrast, those companies that raise profit without increasing sales, do less well, though better than corporations whose sales rise but whose profits stagnate.

THE IMPLICATION is that managers can better spend their time figuring out ways to grow profitably than trying to cut costs, an exercise that cannot be carried out indefinitely.

Investors then, could seek out companies with large payrolls and then look to see if they are growing in terms of sales and profit. Those that meet all three requirements have the hallmarks of potentially lucrative investments.

Siemens calling the plan "strong on buzzwords but short on details and practicalities."

Siemens' announced program pales in comparison to "the great restructuring of the recent past" among European conglomerates, notably Alcatel SA of France and Philips NV of the Netherlands, the analysts remarked. They noted that the plan set forth no clear performance targets. That might not matter, for they also said that Siemens had a history of failing to meet targets when they have been set.

David Potts, a fund manager at Guiney Flight Hambric specializing in European equities, saw an ulterior motive in the announcement. "I'm unconvinced the 10-point plan amounts to anything concrete," he said, calling it "an investor-relations device used to prevent a calamitous fall in the share price when results are announced."

That will be in November, two months after Siemens' financial year ends.

Some of the investors that the company is softening up its employees, although it is hard to know how many. A Siemens spokesman, Eberhard Dombek, said that employees can buy stock at a discount and most hold it for six years. The number who do so is "a private matter," he said, adding that because they can sell in the market after

the lock-in period, Siemens could not know precisely what portion of shares are in employees' hands.

The difficulty in restructuring Siemens is that it is hard to know what to restructure it around. It is a j'accuse of many trades and master of few. While rivals have renewed themselves around a core business — such as telephone equipment for Alcatel — there is no obvious candidate to serve as Siemens' anchor.

"Siemens is nothing if not diverse," Salomon's analysts politely said. Then, in a departure from the delicate phrasing that is customary in such reports, they added: "Trading is truly awful in many areas. These include semiconductors, transportation and mobile phones. With little clear prospect of reducing staff or acquiring new businesses around a core, the key to renovating the company will be to shed the worst of the existing lines, the analysts said.

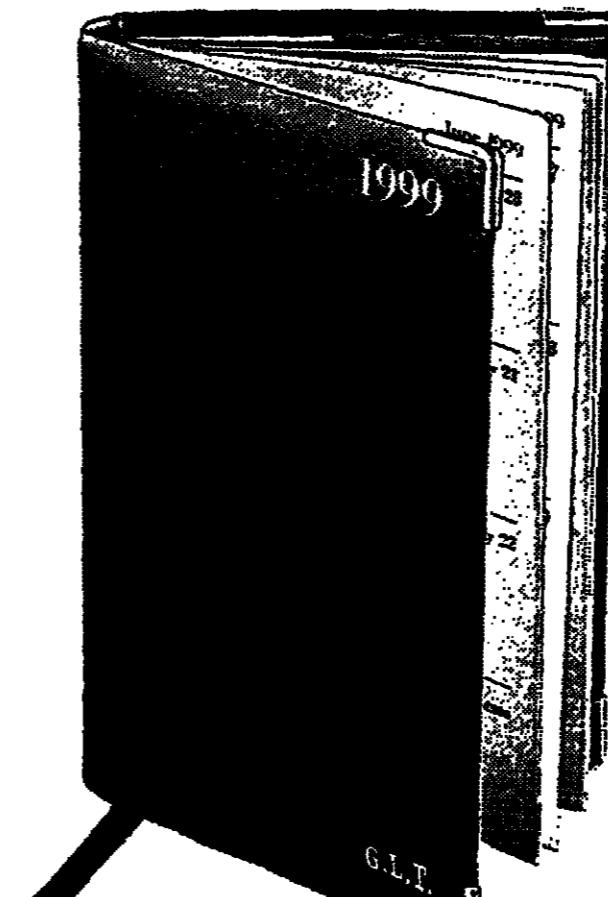
— CONRAD DE AENELLE

Ford Motor

In keeping with its position as the world's largest truck maker and the No. 2 maker of all automotive vehicles, Ford Motor Co. counted 363,892 employees at the end of last year.

It is a fair bet that most of them will

Continued on Page 19

The IHT Pocket Diary
Fits In The Palm
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THE MONEY REPORT

Big Payrolls Are Not Big Problems – Growing Companies Need the Staff

Continued from Page 17

still have a job when 1999 rolls around. Even though Ford is aggressively cutting costs on all fronts, employee headcounts, especially those protected by contracts with the United Auto Workers union, are a relatively small component of that, said Edgar Falter of Olde Discourt Corp. Indeed, one of the reasons he still likes Ford, besides its bargain stock price, is that it remains well positioned to cut costs in other areas.

"Generally the direct labor component is only 12 percent of its manufacturing cost," he pointed out, "but there are many more opportunities in purchasing and through economies of scale."

Ford slashed costs by \$3 billion last year, helping it to turn in a record \$6.9 billion profit; the company said it expected to cut \$1 billion more this year.

One way it reduces expenses is to share more components among its models than it once did. "If you sit in a Ford Explorer, its sports-utility vehicle, the steering wheel is the same as in a Taurus, its family sedan," Mr. Falter noted. "At one time every model had a different underlying chassis," he added, "but now more models share the same chassis, but with a different skin so it looks and feels different to the consumer."

Ford has also gotten smarter about purchasing, said Mr. Falter. Its American and European operations once purchased independently, but are now joining forces to gain economies of scale.

To be sure, Ford's product mix has played a prominent role in its robust earnings. Its position as the leading truck maker has benefited from American consumers' craze for sport-utility vehicles and small pickup trucks, both with far higher profit margins than most cars.

Even so, the automaker has found opportunities to save on salaries under the United Auto Workers contract. UAW members at the Big Three automakers are generally old and earn high salaries, especially compared with foreign automakers setting up in America. But Ford is "riding the attrition curve," said Mr. Falter, replacing retiring workers with less-expensive young ones.

Ford employees own 16 percent to 20 percent of its 1.2 billion shares outstanding. Among them are participants in its 401(k) plan, who receive 60 cents worth of stock for every dollar they contribute. "Last year, we had a total return of 57 percent, and this year, even with the market correction, we're still up about 40 percent," said James Cain, Ford's financial news manager.

— JUDITH REHAK

Gazprom

Gazprom, analysts like to say, is a proxy for the entire Russian economy. As Russia's largest energy company, with proven reserves among the world's largest, it is the country's largest single company, a vertically integrated giant that does everything from pumping natural gas out of the ground to running dairy farms, kindergartens and hospitals for its hundreds of thousands of employees.

In fact, Gazprom is often the only employer in its remote Siberian gas fields, where it practically owns entire communities, making it probably Russia's largest private sector employer.

But analysts say that with little stock in the hands of employees and a management that is among Russia's most capable and enlightened, the vast employee base has little effect on the share price.

While it is vastly overmanned in comparison with worldwide energy industry standards, much of that is down to Gazprom's Soviet-era habit of doing everything in-house.

"I wouldn't use the expression featherbedding," said John-Paul Smith, Russian equities strategist at Morgan Stanley Dean Witter in London. "I'm just not sure how much slack there is within the company."

But, said Mr. Smith, the company is beginning to spin off units and putting many of its services up for competitive bidding. "The psychology of management is among the most progressive of Russian companies, and they are beginning to restructure sooner than most other Russian corporates," Mr. Smith said.

In fact, with its profit-minded management and average salaries in Russia now well below \$100 a month in rubles, Gazprom's army of employees has almost no effect on its share price even though the company spent \$2.8 billion last year out of an estimated \$15.2 billion in operating expenses.

Under normal conditions, Gazprom ought to be a good buy.

Gazprom stands poised to have a stranglehold on Europe's energy supply sometime early next century, when some time, North Sea gas and oil run out. With a \$3 billion profit, under Russian accounting methods, (most of it in hard currency sales to foreigners) it has immense political clout.

But given Russia's spiraling crisis, Gazprom may simply be the most frustratingly hopeless cheap stock on any market.

Russia is on the verge of economic collapse, and Gazprom, like any good market proxy, has followed in example. From a high of \$28, Gazprom's London-listed depository receipts had fallen to about \$7 a share, significantly outperforming the Russian stock market as a whole, but not exactly the place a wise investor would look to put his money.

With the country virtually insolvent, Gazprom is often unable to collect the

vast sums owed it by Russian utilities, factories and other clients — particularly the government.

That same government depends on Gazprom for 25 percent of its tax revenue. Because Gazprom is one of the few visibly profitable corporations in the country, some analysts fear if Russia's crisis continues, the government may re-nationalize the company, leaving its shares worthless.

— PETER S. GREEN

Hitachi

As Hitachi Ltd. braces for its worst annual results ever, the electronics maker almost comes across as an example of how massive employment can only be a drag on earnings.

Hitachi had initially projected a modest profit of 40 billion yen (\$292 million) for the year ending March 1999, but recently decided that it was going to lose 250 billion instead, reflecting a planned restructuring of the company.

Hitachi had sales for the year ended in March of 8.4 trillion yen, with more than 331,000 employees, or 25.4 million yen per employee.

Mami Indo, senior analyst at Daiwa Institute of Research, said Hitachi has been exposed to a harsh market environment thanks to the Asian financial crisis and domestic deregulation.

Unlike such more internationally savvy competitors as Sony Corp. and Canon Inc., whose profits are firmly based overseas, 70 percent of Hitachi's sales are in Japan, and much of the rest depends on the economic health of Southeast Asia.

The parent company has announced plans to cut 4,000 workers from its current 71,000 (counting subsidiaries), it employed a stunning 331,494 at the end of last year), spin off unprofitable divisions and reorganize its galaxy of 975 affiliated companies. Rather than laying off people, Hitachi will reduce headcounts by transferring workers to subsidiaries and by way of attrition.

It is not as if having too many employees in itself is bad, Ms. Indo said, but

— CONRAD DE AENILLE

purchase plans. There would be no indirect ownership through a retirement fund holding Daimler-Benz shares because corporate pension plans per se do not exist in Germany.

While the carmaker has seized vigorously on opportunities to slash staffing, its pending merger with the American carmaker Chrysler Corp. will not provide much scope for further reductions, said David Potts, a fund manager at Greenwich Flight Hambrus.

"Given that the overlap is limited, there will be a limited amount of job cuts," he reasoned. While some administrative positions may be lost, "as far as production is concerned, I don't think it amounts to significant downsizing. The merger was driven by sales synergies."

The two companies are being steered in the right direction, in the view of analysts at Merrill Lynch & Co.

"The merger has significant strategic advantages for each company, which should lead to shareholder approval," they said. "The combined company will have the most desirable product and geographic sales mix among the major automakers."

Daimler's efforts over the years to boost profitability and efficiency have received little respect from investors. The stock has barely doubled from the price range in the early 1990s, while the German stock market has more than tripled. Investors' neglect has left the stock cheap. Once the merger is complete, said John Lawson, who follows it for Salomon Smith Barney, it will be the largest company of the 30 included in the benchmark DAX index of German shares, and it is likely to have the cheapest valuation, 13.6 times his estimate of next year's earnings. He also described the company as the most "shareholder-friendly" among the DAX 30.

— CONRAD DE AENILLE

Sears Roebuck

For many Americans, Sears, Roebuck & Co. is fondly remembered

for its thick mail-order catalog, offering everything from underwear to refrigerators. Then there was the Sears that sold insurance, ran Prodigy, the on-line service, and built the Sears Tower in Chicago, the tallest building in the world when it opened in 1973.

The catalog is now gone, the office building and many of the specialized units sold — the largest American department store retailer continues its restructuring. But even after sharp cuts in its employ-

ce headcount — the most severe in 1993 when it eliminated 50,000 positions — the numbers are creeping up again. At the end of last year, Sears counted 296,000 employees.

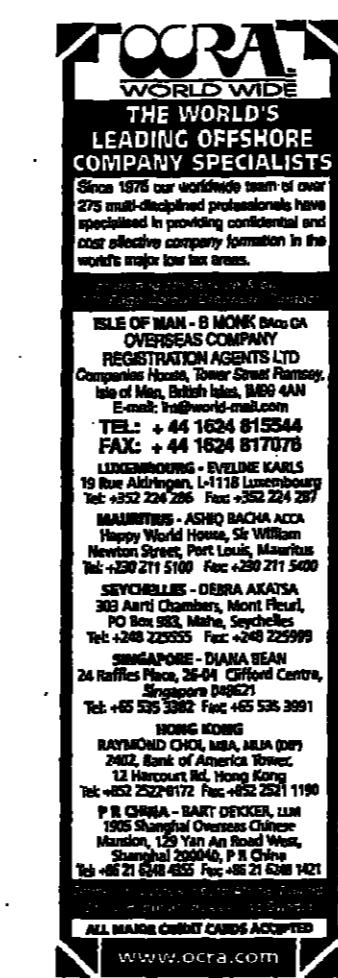
Skip Helm of William T. Blair, the Chicago brokerage, said that while he does not necessarily look at employee headcount, he does look at payroll ratios, another way of analyzing how employee numbers impact a retailer's expenses.

"For most retailers, the biggest expense is payroll, and a key objective is to get the expense structure more in line."

At Sears, the strategy has been to put more "pay at risk," Mr. Helm explained. What this means is that unlike the old days of department-store retailing, where employees and even managers were paid by the hour, base pay raises are minimized but there is more incentive pay for those who meet store and department sales targets.

That has clearly contributed to an improved sales-per-employee rate at Sears, which has been rising steadily from a five-year low of \$124,620 in 1994 to \$139,510 last year.

Improving productivity at a retailer, Mr. Helm said, can be technology-related or just the result of selling businesses. "At Sears, it's a combination of both," he said. In terms of technology, for example, the entire company has



been computerized, from initial order of merchandise to allocations to stores, even to colors and sizes for an individual store's market.

A digression to specialty stores has not paid off, and in mid-August, Sears announced it would sell its auto parts chain, where declining sales had been a drag on its cash flow and earnings. The move prompted some analysts to upgrade their ratings on the retailer.

A major benefit for Sears, in the view of many analysts who follow the company, is chief executive Arthur Martino, who took the helm in 1995. Widely seen as a dynamic and effective leader, he has received top marks for his progress in steering the company's restructuring. Mr. Helm said he expected per-share earnings growth of 12 percent to 15 percent annually for the next several years. "It's a very mature sector, so that's pretty good," he said.

That may provide a measure of comfort to the Sears employees who own 10 percent of the retailer's shares outstanding. Sweetened by the opportunity to buy them at a 15 percent discount to the market price at the beginning of each quarter.

— JUDITH REHAK

Unilever

Selling laundry detergent is a rewarding endeavor for staff members at Unilever PLC. The British-Dutch producer of consumer staples is a European leader in the use of such incentives as stock options for managers, doing them out in healthy doses that can approach the prodigious levels of American businesses.

The company also has a souped-up saving plan for rank-and-file employees that has some of the features of incentive options. Michael Haines, a Unilever spokesman in London, said British employees can sock away up to £250 (\$418) a month. After five years, the money is either returned with interest or converted into shares.

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Unilever's restructuring has resulted in a decline in its work force from 308,000 in 1995 to 287,000 last year. But pay rates are unchanged over the last four years, \$3.9 billion, and some analysts have faulted the company's restructuring efforts.

Unilever was criticized, for instance, for selling its specialty-chemical operations last year before it had figured out a useful way to spend the money

from the sale. While searching for an acquisition, stock markets soared, raising the prices of prospective targets.

Merrill Lynch & Co. judges Unilever a long-term buy and suggests accumulating it — a less favorable appraisal in analytical parlance — for those with shorter time horizons.

— CONRAD DE AENILLE

Columbia/HCA

At \$18.8 billion in sales, Columbia/HCA Healthcare Corp. is the largest investor-owned hospital chain in the United States. Some 8.1 percent of the company's shares are owned by its 228,000 employees; 3.1 percent more by directors.

In the health-care industry, where turnover rates tend to be excessively high," said A.J. Rice, health-care industry analyst at Bear, Stearns & Co., "anything they can do that ties someone's loyalty to the company can help operations."

Mr. Rice noted that average employee turnover among hospitals is amazingly high, nearly 50 percent a year. "Stock ownership," he said, "is a way to keep people there, which can improve productivity and morale."

Of course, when the stock falls from an all-time high of \$44 in early 1997 to about \$22 recently, that probably does not do much for worker morale. But, said Mr. Rice, "external factors have really impacted share prices for the last 15 months."

Those external circumstances are a series of government investigations of

overbilling that has hit a good section of the U.S. health care industry, including home health care companies and kidney/dialysis companies — and Columbia/HCA most of all. In 1997, the year the investigation began, the company reported a \$305 million loss.

That was not the way things were meant to be.

When Richard Scott, the architect and former chief executive of Columbia/HCA, built the company through stock-financed acquisitions, his goal was to transfer the concept of corporate competitiveness to the health care industry.

Columbia made hospitals profitable in part by firing existing staff at acquired institutions and substituting lower-paid workers for them. For example, it would hire licensed practical nurses, who have more education and training.

A 1995 study showed that investor-owned hospitals tended to have 17 percent less staff than not-for-profit hospitals, with an average of 4.02 full-time staff per 100 discharged patients, compared with 4.84 for all hospitals and 5.05 for government hospitals.

But Columbia's lean staff is given financial incentives to stick around and work hard. A bonus plan offers employees of a certain level stock options that are 100 percent exercisable after four years and others that mature in 25 percent increments. A salary deferral plan gives employees the right to set aside part of their salary for stock which is purchased for them twice a year at a 15 percent discount.

Extensive employee stock ownership over long periods is generally viewed by the investment world as a positive for a stock. But it has not added much luster to Columbia/HCA's shares lately because of the company's legal troubles.

Since the federal government raided a Columbia/HCA hospital in El Paso, Texas, in March 1997 for signs of fraudulent overbilling of Medicare and four individuals at a Florida hospital were indicted for misreporting some financial data, shares of the company have plunged from \$44 to its current level of about \$22. By July 1997, Mr. Scott was out.

Current management priorities, summed up Mr. Rice, are to "right whatever is wrong with the company's relationship with the government. That includes keeping its books open to the government instead of waiting for the government to subpoena the books."

The second objective is to "unlock the value inherent in the company" by spinning off two major divisions. Those include the Americas Group of rural hospitals and the Pacific Division, a group of hospitals not in Columbia/HCA's core markets.

— SHARON REIER



Paul Wurth/The Associated Press

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INTERNATIONAL Herald Tribune SPORTS

SATURDAY-SUNDAY, SEPTEMBER 12-13, 1998

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WORLD ROUNDUP

Top Soccer Clubs Offer Aid to UEFA

SOCCER Six major European soccer clubs will take part in UEFA's bid to reform its club competitions and stave off a breakaway European super league, the governing body of European soccer said Friday.

Senior officials from Juventus of Italy, Liverpool of England, Bayern Munich of Germany, Ajax Amsterdam of the Netherlands, FC Porto of Portugal and Olympique Lyonnais of France all are to attend the first meeting of a specially-created task force on Monday in Geneva. Senior UEFA officials and representatives from national leagues in England, Germany and Italy are also to sit on the 14-member panel.

UEFA created the task force to find ways of restructuring its tournaments in response to plans by Media Partners, a Milan-based company, to start up a European super-league competition. The committee is expected to make initial recommendations before Christmas. (AP)

Arsenal Pursuing Swede

SOCCER Arsenal's coach, Arsene Wenger, is set to hire the Swedish striker Fredrik Ljungberg in a £3 million (\$5 million) transfer from Halmstad, according to the player's agent.

Ljungberg, part of the Sweden team that beat England, 2-1, in the Euro 2000 qualifier at Stockholm last Saturday, was expected to undergo a medical examination on Friday before the deal was complete.

Arsenal, the defending FA Cup and Premier League double champion, has recruited the 21-year-old striker to replace the England international Ian Wright, who was sold to West Ham in the offseason as the Gunners attempted to lure the Dutch striker Patrick Kluivert from AC Milan.

Vinzenzo Morabito, Ljungberg's agent, said the deal was a "100 percent certainty." (AP)

New Owner for Marlins?

BASEBALL A commodities trader, John Henry, said he had reached a tentative agreement to buy the Florida Marlins from their current owner, Wayne Huizenga, for \$150 million.

Henry, 48, also said he was likely to ask Micky Arison, the owner of the NBA's Miami Heat, to invest in the Marlins after the deal was done. The Miami Herald reported Friday.

"I have a handshake deal with Huizenga Holdings' president Rick Rochon to buy the team," said Henry. (AP)

SCOREBOARD

BASEBALL

MAJOR LEAGUE STANDINGS

AMERICAN LEAGUE

EAST DIVISION

CENTRAL DIVISION

WEST DIVISION

ATTENTION

ATLANTA

SPORTS

Kile's 2-Hitter
Puts Finish on
Rockies' Sweep

The Associated Press

Darryl Kile pitched a two-hitter and Dante Bichette homered as the Colorado Rockies completed a four-game sweep of the Florida Marlins with a 3-1 victory in Denver.

Kile, 0-2 in his last three starts at Coors Field, allowed only a bunt single by Luis Castillo in the third inning and a triple by Todd Dunwoody leading off

BASEBALL ROUNDUP

the ninth in Thursday night's game. Dunwoody scored on a groundout by Edgar Renteria. Kile (11-16) struck out four and walked two.

Bichette, who had a pair of hits and extended his hitting streak to 12 games, began Colorado's sixth with his 21st homer of the season, a line drive over the left-field fence off the Florida starter, Rafael Medina.

Medina (1-3), in his fifth start since being recalled from Triple-A on Aug. 19, worked seven innings, allowing three runs on nine hits.

Dodgers 4, Padres 3 In San Diego, Kevin Brown pitched six perfect innings before allowing four runs in the seventh as Los Angeles rallied to ruin yet another San Diego no-hit bid.

Brown (18-6) failed to become the NL's first 19-game winner, but he did set San Diego's single-season strikeout record with 238 by fanning 11.

Chan Ho Park (13-8) won for the eighth time in nine decisions. He struck out 10 and walked a career-high seven, allowing five hits and three runs in seven innings.

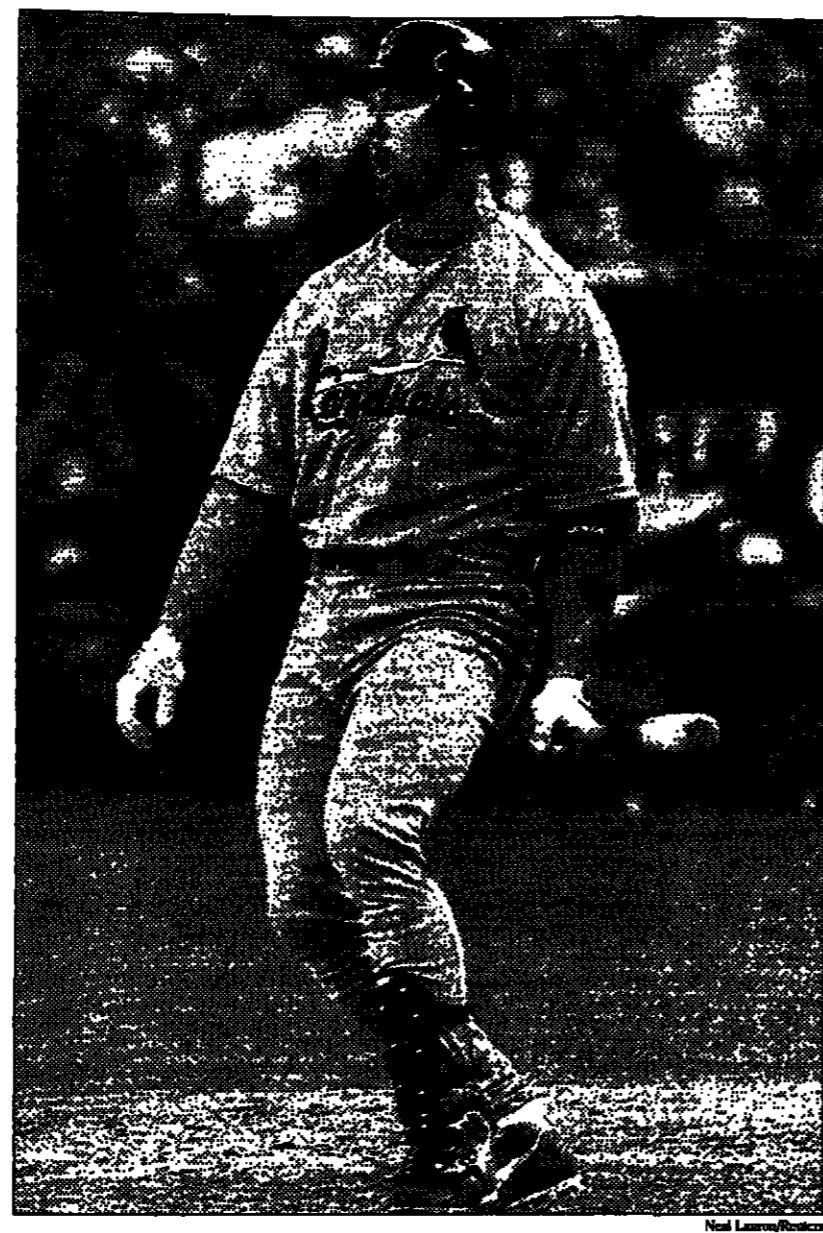
Cardinals 8, Reds 7 Mark McGwire tied Barry Bonds' NL record of 151 walks by drawing two more, but his record home-run total stayed at 62 as visiting St. Louis beat Cincinnati. He also struck out twice and popped out, leaving him without a homer in two games since breaking Roger Maris' record.

Braves 7, Expos 4 In Montreal, Javy Lopez hit a three-run homer and Kevin Millwood became the third Atlanta pitcher to win 15 games as the Braves ended a three-game losing streak.

Lopez hit his 33rd home run, a shot off Mike Thurman (3-4) in the third inning that gave the Braves a 5-1 lead.

Millwood (15-8) allowed four runs and nine hits in 6 2/3 innings. Tom Glavine has won 18 games for the Braves and Greg Maddux has won 17.

Cubs 5, Pirates 2 In Chicago, Sammy Sosa's home run drought reached five games, but that did not keep the Cubs from beating Pittsburgh to stay tied with the New York Mets in the NL wild-card



Mark McGwire letting his feelings show after striking out in the third inning in Cincinnati. He went hitless, leaving his home run total at 62.

chase. Sosa, stuck on 58 homers and trailing Mark McGwire by four, went 0-for-2 with a pair of walks.

Chicago got strong pitching from Kevin Tapani and key hits from Mark Grace and Brant Brown in a five-run third inning. Tapani (18-7) allowed eight hits in eight innings and won his eighth straight decision.

Yankees 8, Blue Jays 5 In New York, Paul O'Neill hit two home runs and the Yankees overcame another shaky outing by Andy Pettitte.

With their 103rd victory, the Yankees, who clinched the AL East on Wednesday in Boston, opened a 21-game advantage over the second-place Red Sox, the largest lead a Yankee team has ever enjoyed at any time in a season. Pettitte (16-9) allowed five runs in six innings.

Jose Canseco hit a three-run homer for Toronto, which fell five games behind the Boston in the AL wild-card race.

Astros 7, Brewers 1 In Houston, Shane Reynolds tied a career high with 12 strikeouts and hit a two-run single as the Astros won their sixth straight.

Houston lowered the magic number for clinching their second straight NL Central title to four.

In the American League:

Yankees 8, Blue Jays 5 In New York, Paul O'Neill hit two home runs and the Yankees overcame another shaky outing by Andy Pettitte.

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Learning to Live in Murdoch's Realm

In America/IAN THOMSEN

BOSTON — Alex Ferguson's job should be safe at Manchester United, at least for another year.

Ferguson has easily been the best club manager in England in the 1990s. But from now on, he will be working for Rupert Murdoch, or, shall we say, the presence of Rupert Murdoch. The accepted logic of professional sports will no longer be applied. For proof, see the 1998 Los Angeles Dodgers.

Before this season, Murdoch spent \$31 million to buy the Dodgers, who in the 1970s and 1980s were known as the best franchise in American sports. The Dodgers had been owned by the O'Malley family, who in the 1950s had moved the team from Brooklyn, sending a watershed signal to fans that baseball was indeed a business, not just a sport.

Before Murdoch's arrival, the Dodgers were known as a cathedral of stability.

Murdoch attended Opening Day at Dodger Stadium in April, where the home team's best player, the catcher Mike Piazza, was greeted with a thunderstorm of boos from his own fans. It was explained to Murdoch that Piazza, entering the final year of his contract, was demanding \$100 million from the Dodgers.

Other owners in American sport have in the past been intimidated by demands of such madness. Murdoch, to his credit, would not be bullied by an employee of whom he had never heard.

The method of Murdoch's response was nonetheless unorthodox. In May, one of his television operatives — Murdoch owns the Fox networks in America — was in Miami negotiating a possible TV sports deal involving the Florida Marlins baseball team. It seems that the conversation gravitated toward baseball

talk, which is normal among a couple of baseball fans, but this particular dialogue must have been especially provocative because the two executives concluded by shaking hands on a trade of Piazza for three players from the Marlins.

The general manager of the Dodgers, Fred Claire, their expert on all baseball matters, was informed of the trade an hour before it was consummated.

That kind of thing is probably not going to happen to Ferguson at Manchester United. He is too strong, too credible and highly respected, to have his job done for him by a dilettante superior.

In hindsight, the trade was like an abomination of El Nino visited upon the Dodgers. Their payroll jumped up to more than \$57 million and yet the team was worse than ever. This convinced the new president of the Dodgers, Bob Gruendemann, an accountant who admittedly is not expert himself when it comes to baseball, to announce in June the firings of Claire and the field manager, Bill Russell.

Never had the Dodgers ever fired their manager. It took Murdoch three months to undo that tradition.

Murdoch's people are also considering whether or not to knock down Dodger Stadium in favor of a new, more profitable stadium with luxury boxes, restaurants and shopping.

The one similarity between the Dodgers and Manchester United is their value to Murdoch as TV commodities. Murdoch bought the Dodgers in order to provide programming for Fox in Southern California. Murdoch also owns a regional network of sports channels throughout the United States, and by

buying up the Dodgers, as well as signing up the exclusive rights to televise the Lakers and other area clubs, he knocked out the plans of Disney to create a competing regional sports network.

In fairness to Murdoch, the Dodgers were in need of an overhaul. They hadn't contended for a championship since the World Series in 1988.

Manchester United is obviously in a much stronger position. It is also a much more important asset to Murdoch than the Dodgers. Manchester United is starting its own digital TV channel this season, with the apparent goal of controlling its own TV rights early in the next millennium. Furthermore, now that he is controlling the biggest club in England, Murdoch will be better able to join with Silvio Berlusconi in creating a breakaway European Super League for more money than UEFA, the federation of European soccer, can now fathom.

So if the recent purchase of Dwight Yorke doesn't solve Manchester United's goal-scoring problems, and if the club fails to finish first or second in the English Premiership, thereby losing its place in the Champions League next season, then Murdoch — or, shall we emphasize, the presence of Murdoch — is likely to grow restless.

The truth about Murdoch is that he is no longer a man so much as he is an attitude. He owns so much and has so many projects in the works in so many different parts of the world, that he probably won't pay much attention to Manchester United — unless things go wrong.

Ian Thomsen is a senior writer at Sports Illustrated magazine.

Commonwealth Games Open in Malaysia

The Associated Press

QUEEN ELIZABETH II, the nominal head of the Commonwealth, was read by her son, Prince Edward of Britain.

The Commonwealth Games claim to be the most important sporting event after the Olympics, drawing together countries once linked as parts of the far-flung British Empire but now divided by culture, geography and economic status.

Formerly known as the Empire Games, the event began in 1930 in Hamilton, Ontario, with just a few dozen athletes from 10 visiting teams. The 1994 event in Victoria, British Columbia, had 3,200 athletes.

Despite a crushing financial crisis, Malaysia has relished its role as host.

Even as it scrapped billions of dollars worth of civil works, dams and railroad projects, it made sure the event was the largest Games ever by insisting on the inclusion of six new sports.

A 1.7 billion ringgit (\$449.7 million) stadium was completed just ahead of the Games, a commuter rail link was finished and more than a dozen other sports venues were built. Mr. Mahathir ensured that a new international airport was ready to receive athletes and officials.

"We are treating the Commonwealth Games opening ceremony as a window to Malaysia," said the country's sports minister, Minister Muhyiddin Yassin. "We have done our best."

Intellectuals But
Fugitive Terrorists

British Release
In Ulster Conflict



PEANUTS



CALVIN AND HOBBES



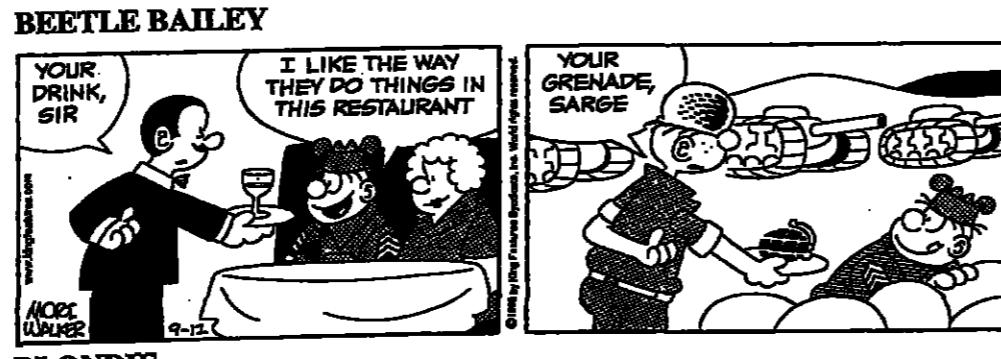
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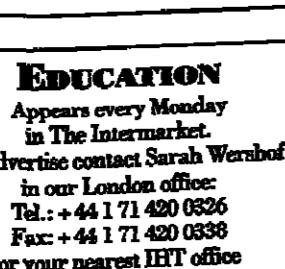
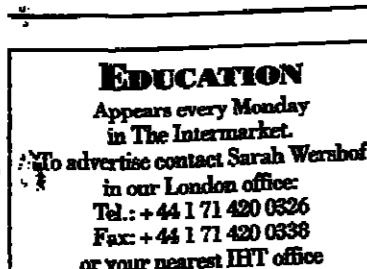
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DAVE BARRY

Ah, Fountain of Youth

MIAAMI — I was at a party hosted by a younger couple. I'm defined as "a couple that had not yet been born when I started worrying about cholesterol." You will never guess whose music these young people were playing: Bobby Darin's. Yes. Bobby Darin, hep-cat swinger from my youth, is Darin again!

No doubt you've read about how the Hot New Trend among "with it" 20-something people is to eschew the rock scene and pretend they're swank sophisticates living three or four decades ago — drinking martinis, going to nightclubs dressing like the late Frank Sinatra (not the women, of course; they're dressing like the late Dean Martin), voting for Dwight Eisenhower, using words like "eschew," etc. This makes me wonder: If old things are cool, could I become cool again?

I have not felt remotely cool for a long time, thanks largely to the relentless efforts of my teenage son, whose goal in life is to make me feel 3,500 years old. We'll be in the car, and he'll say,

"You wanna hear my new CD?" And I, flattered that he thinks his old man might like the same music he does, will say "Sure!" So he increases the sound-system volume setting from "4" to "Meteor Impact," and he puts in a CD by a band with a name like "Pustule," and the next thing

I know nuclear bass notes have blown out the car windows and activated both the driver and passenger side air bags, and I'm writhing on the floor, screaming for mercy with jets of blood spurting three feet from my ears. My son then ejects the CD, smiling contentedly, knowing he has purchased a winner.

My point is that, for some time, I have viewed myself as being roughly equal, on the Coolness Scale, to Bob Dole. And then, suddenly, at this party, these 20-somethings were playing Bobby Darin, a singer from my youth, an era known as "The Era When There Were a Lot of Singers Named Bobby and One Named Freddy" (Bobby Sherman, Bobby Pee, Bobby Vinton, Bobby Rydell, Elvie "Bobby" Presley and Freddy "Boom Boom" Cannon).

I know Bobby Darin's music. Whenever I hear his swinging version of "(Oh My Darlin') Clementine" I snap my fingers in a happening "live" manner and sing right along with these immortal lyrics: "You know she would rouse up / Wake all of them cows up!"

(They don't write them like that anymore. They can't: They have been medicated.)

I remember going to a record hop — that's right, an actual record hop — in the gymnasium of Harold C. Crifenden Junior High in Armonk, New York, where they played "Mack the Knife" maybe 14 times and we all danced the Jitterbug. The Jitterbug was a dance wherein you remained in actual physical contact with your partner — what kids now call "touch dancing." I grew up at the tail end of the touch-dancing era; after that, we started doing noucht dances — the Jek, the Boogaloo, the Cosine, the Funky Downtown, Rumba, etc., wherein you strayed several feet from your partner.

Later in the '60s, songs got longer and dance standards got looser, and you often lost visual contact altogether with your partner, sometimes winding up, days later, in completely different states. This was followed by the disco era, during which you and your partner might touch briefly, but only for the purpose of exchanging narcotics; which in turn was followed by the "mash pit" concept of dancing, wherein you dance simultaneously with many people, the object being to inflict head injuries on them.

So for decades, the only time you saw touch dancing was at wedding receptions, when the band — as required by federal wedding-reception law — played "Bad, Bad Leroy Brown," and guests age 73 and older would hobble onto the floor and do the Fox Trot while younger people gyrated around them.

But now touch dancing is back, and I'm excited about it, because — ask anybody who has seen me at a wedding reception after the bar opens — I can still do the Jitterbug. I can get out there on the floor and really whirl my partner around. Granted, sometimes my partner winds up face-down in the wedding cake, but that is not the point. The point is that, despite what my son thinks, maybe I am cool again.

I might put a tube and a half of Brylcreem in my hair and go to a swank nightclub. I'd saunter up to the bar, order a dry martini and settle back to soak up the scene; then, when a really "swinging" song came on, I'd get to my feet and "wow" the younger generation when I, in a suave and sophisticated manner, threw up on my shoes, because martinis make me sick. Then I'd go to bed, because I'm 3,500 years old.

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As required by federal law, the band played "Bad, Bad Leroy Brown."

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Sarajevo Director Emerges From 'Underground'

By Joan Dupont
International Herald Tribune

PARIS — Emir Kusturica, born in Sarajevo, has made films on the banks of the Danube and in the Arizona desert, won prizes at festivals and taught in New York. He may never go home.

"My best friend in Sarajevo told me, 'Don't come back, they'll kill you,'" Kusturica said. In 1995, "Underground," which depicts Yugoslavia's chaotic modern history, won the Palme d'Or at Cannes, but when the film opened in Paris, some critics attacked it as pro-Serb, the rumor stunted the film's international career and did not help his reputation at home.

"To make 'Underground,'" the director explained in an interview. "I had to survive the last 10 years, what it was like to leave Yugoslavia, and to learn the lesson of the immigrant. But my complex vision, this international view, was judged politically incorrect by certain French philosophers." The campaign against the film made him crazy, he said, and he swore he would never direct another.

Three years later, Kusturica has emerged from the dark aftermath of "Underground" with "Black Cat, White Cat," a comedy set near Belgrade and made with professional and amateur actors brimming with Gypsy gangsters, music and magic, weddings, funerals and grandfathers who die and revive.

"Gypsies and gangsters are international, and so am I. People ask me, 'Why do you always play with the same themes?' It's like asking David Hockney, 'Why do you always paint swimming pools?'"

He calls "Black Cat, White Cat" a new beginning. "This is a movie about how people never die. When my father died six years ago, I started thinking about death. Now I want to film the things that excite me about life."

He got the idea from a story he heard, about a grandfather dying in the midst of plans for a wedding and how the family decided to go



Emir Kusturica, left, who once swore to give up making films, on the set of "Black Cat, White Cat."

on with the ceremony anyway.

In "Black Cat," not one, but two grandfathers expire and are put on ice in the attic while the band plays on, the bride escapes, her gangster brother shoots up the countryside, the roof collapses and a pig calmly munches away on a decrepit car.

"This is, in a way, a vision of my country, the pig eating a Trabant."

Starting with "Do You Remember Dolly Bell?" (Venice Golden Lion, 1981) and "When Father Was Away on Business" (Cannes Palme d'Or, 1985), set in the Yugoslavia of Tito after World War II, Kusturica's films with their crowded imagery — tables that levitate, brides that fly — have delved into family chaos and touched on the nerve of a country in turmoil.

"The Time of the Gypsies" (Cannes Best Director Prize, 1989), showed the filmmaker's magic way with Gypsy superstition and kitsch.

"I grew up on the edge of a suburb, near Gypsies," he said, "and I always thought they were aristocratic people."

Even when he went to film "Arizona Dream" in the desert, he crammed the screen, not just with Cadillacs and flying machines, but with a host of images from his creative home-cooking.

"I had to learn how to match up the two worlds I lived in. Then, when I made 'Underground,' I found new ways to say what I felt about my country. My understanding of the world and what happened is my own: Yugoslavia was formed by the Allies after the war, and then destroyed by the Allies when they had no more need and saw no reason to fight for a multiethnic country. The bottom line is, had I been in Sarajevo when war broke out, I never would have made 'Underground.'"

"Black Cat," which opens in

France at the end of September, is being screened at the Venice and New York Film festivals.

"I expect a good reaction."

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cover important times in my life — everything I've heard from my family, the sources of whatever I do."

Born into a family of non-practicing Muslims, the director says his father's background was Serbian. "My ancestors converted when the Ottoman Turks invaded. I always say I am Yugoslav, but when you say that today, people say, this is a dinosaur speaking." His home environment was very Slav, he says, with multiclimic influences. "I always read a lot; I get instant images from literature."

"Arizona Dream" was inspired by "Catcher in the Rye"; "Black Cat, White Cat" by Isaac Bashevis Singer's short stories. "Babel" wrote about criminals with a fatal flaw, that's what got me. There were criminals like that around where we lived: emotional men with big hearts, the heroes of my youth. I think that today, we're less bound by ideology and religion — utopia is one — and we're ready to accept evil properly."

He loves his gangster here, played by Srdjan Todorovic, an actor from Belgrade, and enjoys Quentino Tarantino's films, with their campy criminals. As much as he dislikes most Hollywood movies and what he calls "the artificial world of cinema," he relishes American films of the '30s, '40s and '50s, "melodramas that show great human emotions."

For the first time he will adapt a film from a book, shooting D.M. Thomas's "The White Hotel" in Montenegro with Juliette Binoche as the exalted heroine. "Good material," he agreed, "all my characters are hysterical anyway, or I make them hysterical."

He doesn't know why he became a director instead of a writer or musician. "But I remember how my mother used to walk five to six miles to find what she wanted at the market. When she appeared in shops miles away from home, people would say, 'Hello neighbor.' I think I'm like her, and maybe this persistence is more important than talent these days."



Madonna, the top winner, with one of the six figurines she took home from MTV Video Music Awards.

PEOPLE

THE stage turned into a soapbox at the MTV Video Music Awards as a Beastie Boys member condemned U.S. foreign policy and the R&B singer Wyclef Jean attacked the film "Stella Got Her Groove Back" for an AIDS joke. Madonna was the top winner with six awards, including video of the year for "Ray of Light," in an evening that was about as political as an Academy Awards ceremony. Madonna, who sang "Ray of Light" in a virtually transparent shirt, won five trophies for the "Ray" video and one for her "Frozen" video, while the Backstreet Boys won the best group video award for "Everybody (Backstreet's Back)." Jean accepted the R&B video award for "Gone Til November."

A judge has found Alec Wildenstein, the art dealer whose family trades in Old Masters, in contempt of court and ordered his arrest for failing to pay his estranged wife, Jocelyne Wildenstein, \$452,000 in court-ordered alimony. But the New York State Supreme Court delayed imposing the order until Wednesday because

Wildenstein was believed to be out of the country. The Wildensteins, whose marital problems have generated almost as much interest as the considerable cosmetic surgery Mrs. Wildenstein has undergone, are divorcing after nearly 20 years of marriage, a luxurious lifestyle and travel between their New York town house, ranch in Kenya and chateau in France.

The writer Isabel Allende is the recipient of the 1998 Dorothy and Lillian Gish Prize, given annually for excellence in the arts. The award consists of a silver medal and a cash stipend of about \$200,000. She will receive the award from Homero Aridjis, president of the writers' group International PEN on Oct. 13 in New York. Her first novel, "The House of the Spirits," depicted a brutal period of Chilean history. Her latest book is "Aphrodite: A Memoir of the Senses." Bob Dylan received last year's prize.

The Stone Pony in Asbury Park, New Jersey, is nearing its last ride. The music

club that used to feature New Jersey acts like Bruce Springsteen, Jon Bon Jovi and Southside Johnny is calling it quits and reopening as Vinyl, a dance club. The Stone Pony will go out with a series of shows Sept. 18-20. The owner, Steven Nasar, said bands had become hard-core and crowds too rowdy. "The days of Bruce Springsteen-type of rock and roll are gone," Nasar said. The Stone Pony opened in 1974.

Martha Stewart, the role model for millions of American women, has canceled a segment of her television show that featured President Bill Clinton. The Friday broadcast of her daily show, "Martha Stewart Living," was to have been devoted entirely to a lunch visit by Clinton. Taped in June at Stewart's studio in Westport, Connecticut, the get-together was to have been the crown jewel of the show's sixth-season premiere week. But after Clinton's troubles over his testimony in the Monica Lewinsky affair, the president got the hook from Stewart and her staff.



(take in a rock show)

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